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Comprehensive Annual Financial Report

for the Fiscal Year Ended June 30, 1989

Commonwealth of Pennsylvania

Robert P. Casey
Governor

The Pennsylvania coat of arms consists of a shield, bordered in the gold of faith and constancy, supported by speed and strength personified by two rampant steeds of sable color further denoting prudence and fidelity, and crowned with an eagle — symbolizing sovereignity; underneath, the cornstalk of plenty and the olive branch of peace are bound together in love and comity. Upon the shield, a ship of black and white — wisdom and anticipation — sails upon a changeless sea of blue, teeming with justice and loyalty; a ruddy plough stands for generosity and devotion upon an eternal golden base of honor and integrity; while the three sheaves of wheat, in gold of constancy and abundance, never desert their emerald environment of gentleness and courtesy; — the whole completed by a scroll bearing the motto of the Commonwealth — Virtue, Liberty and Independence.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 1989

Commonwealth of Pennsylvania
Robert P. Casey, Governor

Prepared By: Office of the Budget
Michael H. Hershock, Secretary
Comptroller Operations
Harvey C. Eckert, Deputy Secretary

Commonwealth of Pennsylvania
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 1989

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
Title Page	i
Table of Contents	ii
Budget Secretary's Letter of Transmittal	iv
Deputy Secretary's Letter of Transmittal	vii
Certificate of Achievement	xvii
Organization and Officials Chart	xviii
FINANCIAL SECTION	
Independent Auditors' Report	3
General Purpose Financial Statements:	
Combined Balance Sheet—All Fund Types and Account Groups	6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Fund Types and Expendable Trust Funds	8
Combined Statement of Revenues, Expenditures and Changes in Unreserved/Undesignated Fund Balances—Budget and Actual (Budgetary Basis)—General and Budgeted Special Revenue Funds	9
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances—All Proprietary Fund Types and Pension Trust Funds	10
Combined Statement of Changes in Financial Position—All Proprietary Fund Types and Pension Trust Fund	11
Combined Statement of Changes in Fund Balances—College and University Funds	12
Combined Statement of Current Funds Revenues, Expenditures and Changes in Fund Balances—College and University Funds	13
Notes to Financial Statements	14
Combining Financial Statements and Schedules:	
Special Revenue Funds	
Special Revenue Funds—Descriptions	53
Combining Balance Sheet—Special Revenue Funds	54
Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Special Revenue Funds	55
Combining Statement of Revenues, Expenditures and Changes in Unreserved/Undesignated Fund Balances—Budget and Actual (Budgetary Basis)—Budgeted Special Revenue Funds	56
Debt Service Funds	
Debt Service Funds—Descriptions	61
Combining Balance Sheet—Debt Service Funds	62
Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Debt Service Funds	63
Capital Projects Funds	
Capital Projects Funds—Descriptions	67
Combining Balance Sheet—Capital Projects Funds	68
Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Capital Projects Funds	69

	Page
Enterprise Funds	
Enterprise Funds—Descriptions	73
Combining Balance Sheet—Enterprise Funds	74
Combining Statement of Revenues, Expenses and Changes in Retained Earnings—Enterprise Funds	75
Combining Statement of Changes in Financial Position—Enterprise Funds	76
Internal Service Funds	
Internal Service Funds—Descriptions	79
Combining Balance Sheet—Internal Service Funds	80
Combining Statement of Revenues, Expenses and Changes in Retained Earnings—Internal Service Funds	81
Combining Statement of Changes in Financial Position—Internal Service Funds	82
Trust and Agency Funds	
Trust and Agency Funds—Descriptions	85
Combining Balance Sheet—Trust and Agency Funds	87
Combining Balance Sheet—Expendable Trust Funds	88
Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Expendable Trust Funds	89
Combining Balance Sheet—Pension Trust Funds	90
Combining Statement of Revenues, Expenses and Changes in Fund Balances—Pension Trust Funds	91
Combining Statement of Changes in Assets and Liabilities—Agency Funds	92
General Fixed Assets Account Group	
General Fixed Assets Account Group—Description	97
Schedule of Changes in General Fixed Assets by Source	97
Schedule of General Fixed Assets by Function	98
Schedule of Changes in General Fixed Assets by Function	98
College and University Funds	
College and University Funds—Description	101
Combining Balance Sheet—College and University Funds	102

STATISTICAL SECTION

	Table	Page
Revenues by Source and Expenditures by Function—All Governmental Fund Types	1	105
Net Bonded Debt Per Capita	2	106
Ratio of Annual Debt Service Requirements for General Bonded Debt to Total General Fund Expenditures	3	107
Computation of Legal Debt Margin	4	108
Schedule of Revenue Bond Coverage	5	109
Annual Estimates of the Resident Population—Pennsylvania Compared to the United States	6	110
State Banking Institutions Demand Deposits and Time and Savings Deposits	7	111
Resident Employment, Unemployment and Unemployment Rate—Pennsylvania Compared to the United States	8	112
Total Personal Income and Per Capita Personal Income—Pennsylvania Compared to the United States	9	113
Thirty Largest Nongovernmental Employers	10	114
List of Major Corporations that Maintain their Corporate Headquarters in the Commonwealth	11	115
Miscellaneous Statistics	12	116

COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

December 15, 1989

MICHAEL H. HERSHOCK
SECRETARY
OFFICE OF THE BUDGET

To the Governor, the Honorable Members of the General Assembly and the Citizens of the Commonwealth of Pennsylvania:

This Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania represents this Administration's continued commitment to sound fiscal management and to responsible financial reporting based on nationally recognized standards. This CAFR, which includes the Commonwealth's independently audited general purpose financial statements as of and for the fiscal year ended June 30, 1989, will provide you and the financial community with all the information required to fully assess the Commonwealth's financial position, results of operations, and the management of its financial resources.

During the fiscal year ended June 30, 1989, we built on the momentum established in previous years while making a major strategic investment for the future: an investment in our business environment and our natural environment; an investment in basic and higher education; an investment in job training; and an investment in the human potential of Pennsylvania's people. Our goal was to provide quality services while maintaining the commitment of no tax increase.

Revenues of the General Fund, led by those taxes based on income levels, exceeded the budget estimate during the 1988-89 fiscal year. Further, based on generally accepted accounting principles, tax revenues also increased over last year's reported amount. Personal income tax revenues increased by over 10.70 percent for the fiscal year while the corporate net income and capital stock and franchise taxes had a combined increase of over 9.93 percent. These increases, in conjunction with lower rates of annual increase for the sales and use tax and other consumption taxes, produced an overall 8.32 percent increase in tax revenue in the General Fund for the fiscal year.

Non-tax General Fund revenues for the 1988-89 fiscal year were augmented by appropriated transfers of $60 million excess reserves from the State Workmen's Insurance Fund and $41 million from repayment of advances to the Unemployment Compensation Fund.

A new, long-term commitment to the economic future of the Commonwealth was achieved by making the Pennsylvania Economic Revitalization Fund (PERF) and its many important economic development programs a permanent rather than short-term effort. We transferred $41 million in General Fund monies to PERF and for the first time established a policy of providing similar, continuing future transfers.

Within PERF-funded programs, we provided $21 million for the Business Infrastructure Development program which makes grants and loans to local sponsors to install specific infrastructure improvements that complement private industrial development. We also continued an important new effort initiated in 1987-88; a $10 million annual Industrial Resource Centers program to recruit and create research facilities both for direct jobs and for direct investment by private companies who will benefit from association with such a facility.

We also provided $22 million from the Sunny Day Fund to help private industries expand and attract new businesses to Pennsylvania. We appropriated $45 million from the General Fund for the Housing and Redevelopment program which provides grants to improve blighted neighborhoods through redevelopment and to improve low and moderate-income housing through rehabilitation. We continued a major change initiated in 1987-88 in the way state government assists the job creation process by establishing partnerships among businesses, working men and women, government officials, and educators to help create more jobs.

Several major pieces of environmental legislation were enacted, creating and expanding several programs:

— The problem of abandoned hazardous waste sites is being addressed with a special 0.5 mill surcharge which was added to the capital stock and franchise tax rate effective January 1, 1988 through December 31, 1991. The revenues from the additional 0.5 mill surcharge rate are included in General Fund revenues and are subsequently transferred to the Hazardous Sites Cleanup Fund before the end of each fiscal year. These revenues are in addition to the $15.9 million appropriated from the General Fund for hazardous waste control.

— We strengthened other environmental protection programs by enhancing emergency response teams and improving monitoring of water supply systems and sewage treatment facilities.

— The Pennsylvania Infrastructure Investment Authority was created by Act 16 of 1988 to administer the PENNVEST program. Under PENNVEST, grants, loans and loan guarantees are awarded to municipalities, municipal authorities, and private firms to improve water and sewage systems. Funds come from general tax revenues, bonds approved by referendum, interest earnings and other approved debt financing.

— Act 101 of 1988 addressed the problem of solid waste disposal in the Commonwealth, in part, by creating the Recycling Fund. The revenues of this fund are to be used to encourage waste reduction and recycling, to guarantee that waste disposal facilities are operated in a safe and responsible manner, and to provide incentives to communities where facilities can be located. Revenue for this fund is generated by a fee on all waste deposited in landfills and other facilities.

— Act 32 of 1989 established a program for the regulation of above ground and underground storage tanks and tank facilities. The Storage Tank Fund was created to provide for costs associated with this program, including the cleanup of spills and other remedial actions. Revenue for this fund comes from registration and permitting fees, fines, recovered costs, bond forfeitures and other similar sources.

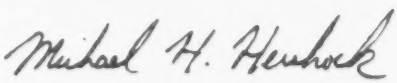
We made significant investments in programs to support the economically needy through general assistance, aid to families with dependent children, and medical assistance. Total expenditures for these programs by the Commonwealth and the Federal Government amounted to $3.5 billion in 1988-89. Approximately 46.9 percent of the total costs for assistance to the economically needy is supported by the General Fund. The balance is provided from the State Lottery Fund, from reimbursements by the Federal Government, and through various program collection activities conducted by the Commonwealth. We focused attention on maintaining the integrity of the State Lottery Fund by continuing a yearly $20 million transfer of selected program costs back to the General Fund to prevent a deficit in the State Lottery Fund. We are continuing to develop a new reimbursement methodology for long-term care facilities providing nursing home care for medical assistance recipients.

Education continues to be the cornerstone of Pennsylvania's future. We have continued our commitment to the future by providing total funding of $2.5 billion to our public schools through the Equalized Subsidy for Basic Education. The total funding for basic education was $3.9 billion, including funding for special education, pupil transportation, teacher retirement and social security, and special programs to address the needs of economically and educationally at-risk students. In addition, we provided over $1.1 billion for higher educational institutions and students. Of this, $116 million was provided directly to students through the Pennsylvania Higher Education Assistance Agency, with the remainder being distributed to Pennsylvania's many higher educational institutions.

The Commonwealth assists local mass transit systems through grants and payments for free rides by senior citizens during non-peak hours. In addition, transit operators receive payments for providing senior citizen transportation service on a shared-ride basis, generally in areas where fixed route service is not available. Payments to local mass transit systems for these programs have grown rapidly. In the fiscal year ended June 30, 1989, $333 million in Commonwealth funds were expended from the General and the State Lottery Funds for such purposes.

Overall, the financial position presented in these General Purpose Financial Statements demonstrates our continued commitment to the fiscal integrity of the Commonwealth. It is our goal to maintain a strong financial position through continued emphasis on economic development, education and productive growth in the Pennsylvania economy.

Sincerely,



Michael H. Hershock
Secretary
Office of the Budget

COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

December 15, 1989

HARVEY C. ECKERT
DEPUTY SECRETARY FOR COMPTROLLER OPERATIONS
OFFICE OF THE BUDGET

Dear Secretary Hershock:

It is my privilege to present this Comprehensive Annual Financial Report (CAFR) on the operations of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 1989. This report, which includes the General Purpose Financial Statements (GPFS), was prepared by the Office of the Budget, Comptroller Operations, pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, October 11, 1984.

The financial statements contained in this CAFR were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed in pronouncements by the Governmental Accounting Standards Board (GASB). They were jointly audited by the elected Auditor General of the Commonwealth of Pennsylvania and Peat Marwick Main & Co., a nationally recognized public accounting firm. Their Independent Auditors' Report, expressing an unqualified opinion on the GPFS, is included in this financial report.

I believe the financial statements are fairly stated in all material respects; that they are presented in a manner designed to fairly set forth the Commonwealth's financial position, results of operations, and changes in the fund balances as measured by the financial activity of its various fund types; and that all disclosures necessary to enable the Governor, the Members of the General Assembly, the public, and the financial community to gain a full understanding of the Commonwealth's operations and financial affairs have been included. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth of Pennsylvania, Office of the Budget.

In addition to the GPFS, which provide an overview of the Commonwealth's financial position and operating results by fund type, this CAFR includes: combining financial statements presenting information by fund; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial, economic, social and demographic data about the Commonwealth. The CAFR was prepared in accordance with standards established by the Government Finance Officers Association of the United States and Canada (GFOA) and will be submitted to the GFOA to determine its eligibility for a Certificate of Achievement for Excellence in Financial Reporting.

THE FINANCIAL REPORTING ENTITY

The GPFS of the Commonwealth, in conformance with GASB Codification Section (Cod.Sec.) 2100 includes all funds, account groups, agencies, boards and commissions, and governmental public service corporations over which the Commonwealth's executive and legislative branches exercise oversight responsibility. Criteria used to determine oversight responsibility include budget adoption and approval, taxing authority, funding of outstanding debt, authority to appoint an organization's governing body, constitutional officers' ability to significantly influence operations, accountability for fiscal operations and scope of public service. Inclusion of an organization in the Commonwealth GPFS in no way alters the defined prerogatives of the organization's management, its statutory authority, or its legal characteristics.

Based on Cod.Sec. 2100, the following Commonwealth public service organizations meet the oversight criteria and are included in the accompanying financial statements.

General State Authority (GSA): The GSA was created for the purpose of acquiring, constructing, equipping and maintaining public buildings for the use of the Commonwealth, State institutions of every kind and character, additions and improvements to land grant colleges, State universities and medical schools, airports, river and port facilities and flood control projects. Debt service on bonds issued by the GSA is paid from lease payments made to the GSA by the Commonwealth. Due to a refunding of all Authority bonds during the fiscal year ended June 30, 1989, no Authority assets or liabilities are reported at June 30, 1989.

Pennsylvania Higher Educational Facilities Authority (PHEFA): The PHEFA was created for the purpose of financing, constructing, improving and maintaining any educational facility, and assisting colleges in financing, on a short-term basis, their working capital requirements. PHEFA revenue bonds are financed through lease rental payments. Some of the lessees, although private institutions, are recipients of Commonwealth grants and subsidies.

Pennsylvania Higher Education Assistance Agency (PHEAA): The PHEAA was created to improve the higher educational opportunities of persons who are residents of the Commonwealth and attending institutions of higher education by enabling the agency, lenders and post-secondary institutions to make loans and grants to students for educational purposes. Debt service on bonds issued by the PHEAA is met from loan repayments and interest and other revenues of the agency.

Pennsylvania Housing Finance Agency (PHFA): The PHFA was created to make loans secured by real property or leasehold, including mortgages, to finance projects designed and planned to be available for low and moderate income persons and families. Bonds issued by the PHFA are partially secured by a capital reserve fund required to be maintained at an amount equal to the maximum annual debt service on its outstanding bonds in any succeeding calendar year. Statute provides that if there is a deficiency in the capital reserve fund or if funds are necessary to avoid default on interest, principal or sinking fund payments on PHFA notes or bonds, an amount sufficient to make up such deficiency shall be placed in the budget of the Commonwealth for the succeeding fiscal year.

Pennsylvania Industrial Development Authority (PIDA): The PIDA was created for the purpose of making secured loans to industrial development agencies for payment of a part of the cost of industrial development projects in critical economic areas. Principal and interest payments to PIDA and other revenues are used to pay debt service on revenue bonds issued by the PIDA and to make additional loans.

Pennsylvania Turnpike Commission (PTC): The PTC was created for the purpose of constructing, maintaining and operating a turnpike system together with connecting roads, tunnels and bridges. Debt service on turnpike revenue bonds is payable from revenues, primarily tolls and rentals from leases and concessions, of the turnpike system.

State Employes' Retirement System (SERS), Public School Employes' Retirement System (PSERS): The SERS and PSERS were established as independent administrative boards of the Commonwealth. Each system is directed by a governing board which exercises control and management of the systems, including the investment of assets. The retirement plans of the SERS and the PSERS are contributory defined benefit plans covering all state employes, employes of certain state-related organizations, and all public school employes. Proposed changes in benefit and contribution provisions require legislative action and must be supported by an actuarially computed estimate of the cost of such changes.

State Highway and Bridge Authority (SHBA): The SHBA was created to construct, reconstruct, improve and maintain highway and bridge projects and roadside rests. All rental charges of SHBA are transferred from the Motor License Fund, a Special Revenue Fund, and are used to meet debt service requirements. No SHBA debt obligations have been issued since 1968.

State Public School Building Authority (SPSBA): The SPSBA was created for the purpose of constructing, furnishing and equipping, and maintaining public school buildings, as part of the public school system of the Commonwealth. Debt service on revenue bonds issued by the SPSBA is met from lease rental payments made by the local school districts, all of which receive substantial financial aid from the Commonwealth.

State System of Higher Education (SSHE): In accordance with Cod.Sec. 2100, Commonwealth-owned universities are reported in a "discrete presentation" under a separate fund category in the Commonwealth's GPFS. The SSHE, composed of fourteen universities, was created by Act No. 188 of 1982 to function independently of the Department of Education for the purpose of providing instruction for undergraduate and graduate students. The corporate powers of the SSHE are exercised by a Board of Governors through the SSHE Chancellor.

Commonwealth-related universities named below are not included in the GPFS as the degree of oversight responsibility exercised by the Commonwealth is so insignificant that it has not been deemed appropriate to reflect them in the reporting entity.

Pennsylvania State University
Temple University
University of Pittsburgh
Lincoln University

It has been determined that the following organization is not a part of the Commonwealth reporting entity after applying criteria of Cod.Sec. 2100 and is excluded from the GPFS because the Commonwealth does not control its assets, operations or management.

Pennsylvania Municipal Retirement System (PMRS): The PMRS was established as an independent board of the Commonwealth for the purpose of administering a retirement plan for officers, employes, firemen and policemen of the Commonwealth's political subdivisions and municipal authorities, and of institutions supported and maintained by the political subdivisions and municipal government associations. Control and management of the PMRS, including investment of assets, is exercised by a governing board.

BUDGETARY CONTROLS AND ACCOUNTING SYSTEMS

The annual budget of the Commonwealth is comprised of separate appropriations to individual agencies for their specific programs, purposes, special outlays and/or operating expenditures. Budgetary control is exercised at the agency level by appropriation and by allocations to major categories of expenditure within each appropriation. Major expenditure categories include personnel services, operational expenses, fixed assets, subsidies and grants, debt service and fixed charges. An encumbrance system is used to effect budgetary control at the appropriation and allocation levels.

Encumbrances represent the estimated amount of expenditures that are expected to be incurred when purchase orders issued are filled and contracts and other commitments entered into are performed. They serve to reserve that part of an appropriation until the actual liabilities are incurred and to ensure that funds committed (encumbered) and expended do not exceed the total amounts appropriated and/or allocated. Section 621 of the Administrative Code provides that unencumbered appropriated funds shall automatically lapse at fiscal year end and become available for appropriation in the new fiscal year. Encumbered appropriations are carried forward into the new fiscal year. They are reported in the Commonwealth's governmental funds as reservations of fund balance as distinguished from unreserved fund balance. Funds reserved for appropriations carried forward may be expended until October 31 of the new fiscal year at which time any remaining balances must be lapsed, except amounts for encumbered items being litigated or arbitrated or otherwise extended for some other reason with approval of the Secretary of the Budget. In no event, however, can an encumbrance carried forward from one fiscal year be extended beyond the end of the next fiscal year except for a litigated item.

Accounting records of most departments under the Governor's jurisdiction are maintained on a centralized accounting system. The operations of this system are directed and supervised by the Office of the Budget, Comptroller Operations. Separate accounting systems are maintained by the Department of Transportation for the Motor License Fund; the Liquor Control Board for the State Stores Fund; and the Department of Labor and Industry, Office of Employment Security, for the payment of unemployment compensation benefits. The Treasury Department, the Department of the Auditor General, and the Legislature and Judiciary, likewise, operate separate accounting systems.

The accounts of the Commonwealth's governmental fund types are maintained on a budgetary basis by fund, agency and appropriation. Revenues are recorded at the time cash is received. Expenditures are recorded at the time payment requisitions and invoices are submitted to the Treasury Department for payment. At the fiscal year end, both revenues and expenditures are adjusted to reflect appropriate accruals for financial reporting in conformity with GAAP.

Within the accounting systems, internal controls effectively provide reasonable assurance that financial transactions are executed in accordance with prior authorizations, that assets are protected from unauthorized use or disposition, and that the financial records are reliable for the purposes of preparing financial statements and maintaining accountability. All department records are reconciled monthly with the Treasury Department's records of cash disbursements and the Department of Revenue's records of cash receipts.

THE GENERAL PURPOSE FINANCIAL STATEMENTS (GPFS)

Although the Commonwealth plans and manages its financial affairs on a budgetary basis, it also prepares GPFS in conformity with GAAP applicable to governments. These financial statements differ from those prepared on a budgetary basis in that generic funds are combined by fund types and the financial information is presented on the basis of accounting principles applicable to each fund type. Accordingly, governmental, expendable trust, and agency funds are reported on the modified accrual basis of accounting; proprietary and pension trust funds are reported on the accrual basis of accounting. The College and University Funds are reported on the accrual basis of accounting in accordance with the National Association of College and University Business Officers' *College and University Business Administration* and the American Institute of Certified Public Accountants' *Audits of Colleges and Universities* for institutions of higher education.

In measuring financial position and operating results on the modified accrual basis of accounting, as compared to the budgetary basis, revenues are generally recognized when they become measurable and available to finance current obligations, as opposed to when cash is received. Expenditures are generally reported when goods and services are received and a liability incurred, rather than when cash is disbursed. Due to these differences, the Commonwealth's GPFS as of a fiscal year end include amounts which actually will not be received or disbursed until a future date. Such amounts are necessarily based on management's best assessment and evaluation of available financial data at the time the financial statements are prepared. They include revenues due the Commonwealth, net of credits and refunds, and accounts payable and accrued expenditures for which a liability has been incurred as of the fiscal year end.

THE GENERAL FUND

The General Fund, the Commonwealth's largest fund, is the focal point in any determination of Pennsylvania's financial position. It accounts for all revenues and receipts which are not required by law to be accounted for or deposited elsewhere and for the major portion of Commonwealth expenditures. Tax receipts, principally personal and corporate income and sales and use taxes, constitute more than 72 percent of the General Fund's revenues. Major fund expenditures are for general government, protection of persons and property, public health and welfare, public education, economic development and debt service on all obligations except those incurred for highway or other special revenue fund purposes. A comparison of how the Commonwealth has operated within its adopted General Fund budget, as amended, is presented in the "Combined Statement of Revenues, Expenditures and Changes in Unreserved/Undesignated Fund Balances — Budget and Actual (Budgetary Basis)," included in the GPFS.

During the last six fiscal years, the Commonwealth reported General Fund surplus unreserved/undesignated fund balances on the budgetary basis of accounting. A deficit was last reported at the end of the 1982-83 fiscal year. The surplus amounts are the result of controlled expenditure growth, improved productivity and continued economic growth that has produced revenue surpluses despite general tax rate reductions in previous fiscal years.

Budgetary Basis: At June 30, 1989 the General Fund's unreserved/undesignated fund balance (budgetary basis) amounted to $385.1 million. This compares to a budgetary fund balance of $94.7 million at June 30, 1988. The budgetary basis fund balance at June 30, 1989 was the result of revenue collections totalling $14,912.5 million less appropriation authorizations totalling $14,810.0 million, plus appropriation lapses from prior years in the amount of $187.9 million.

The following table shows the General Fund's actual year end unreserved/undesignated fund balance and increases or decreases (expressed in millions) on a budgetary basis at the end of the five most recent fiscal years:

At June 30	Unreserved/ Undesignated Fund Balance	Increase (Decrease)
1985	$ 310.5	$ 234.1
1986	219.8	(90.7)
1987	347.8	128.0
1988	94.7	(253.1)
1989	385.1	290.4

Modified Accrual Basis: At June 30, 1989 the Commonwealth's General Fund reflects a fund balance of $618.9 million, an increase of $46.1 million from $572.8 million at June 30, 1988. Total assets increased by $363.2 million to $2,212.8 million. Liabilities increased by $317.1 million to $1,593.9 million. These changes and others (expressed in millions) are reflected in the General Fund summary comparative balance sheet that follows.

General Fund
Summary Comparative Balance Sheets (GAAP Basis)
(Expressed in Millions)

	June 30, 1989	June 30, 1988	Increase (Decrease)
Assets			
Cash and temporary investments	$ 1,037.3	$ 787.7	$ 249.6
Receivables, net	557.9	550.6	7.3
Due from other funds/governments	617.4	509.7	107.7
Other assets	.2	1.6	(1.4)
Total Assets	$ 2,212.8	$ 1,849.6	$ 363.2
Liabilities			
Accounts payable and other accrued liabilities	$ 1,092.7	$ 869.9	$ 222.8
Matured bonds and interest payable	1.5	22.2	(20.7)
Due to other funds/governments	488.6	374.3	114.3
Deferred revenue	11.1	10.4	.7
Total Liabilities	$ 1,593.9	$ 1,276.8	$ 317.1
Fund Balance			
Reserved	$ 163.3	$ 186.0	$ (22.7)
Unreserved:			
Designated	455.6	386.8	68.8
Undesignated	- - - -	- - - -	- - - -
Total Fund Balance	$ 618.9	$ 572.8	$ 46.1
Total Liabilities and Fund Balance	$ 2,212.8	$ 1,849.6	$ 363.2

GENERAL GOVERNMENTAL FUNCTIONS — MODIFIED ACCRUAL BASIS

The Commonwealth's governmental fund types include the General Fund, the Motor License Fund and other Special Revenue Funds, the Debt Service Funds and the Capital Projects Funds. These funds account for most general operating revenues and expenditures. Their combined fund balances at June 30, 1989 decreased by $44 million to $1,965 million from $2,009 million at the beginning of the fiscal year. Unreserved/undesignated fund balances at June 30, 1989 amount to $374 million as compared to $381 million a year ago. Comparative summaries of general governmental revenues by source and expenditures by function (expressed in millions) follow.

General Governmental Revenues by Source. Revenues of the Commonwealth's General, Special Revenue, Debt Service and Capital Projects Funds totalled $19,248 million. This represents an 8 percent increase over the previous fiscal year. Taxes constituted 61 percent of general governmental revenues; intergovernmental revenues, primarily Federal funds, constituted 22 percent.

Revenue Source	Fiscal Years Ended June 30, 1989	June 30, 1988	Increase (Decrease)
Taxes	$ 11,759	$ 10,888	$ 871
Licenses and fees	629	589	40
Intergovernmental	4,249	3,874	375
Charges for goods and services	529	536	(7)
Investment income	226	194	32
Lottery receipts	1,575	1,472	103
Lease rental principal and interest	140	108	32
Other	141	153	(12)
Total Revenues	$ 19,248	$ 17,814	$ 1,434

Taxes increased by $871 million over the previous fiscal year due mainly to the expansion in the state and national economies. The following is a summary of tax revenue by type:

Taxes by Type	Fiscal Years Ended June 30, 1989	June 30, 1988	Increase
Sales and use	$ 4,073	$ 3,837	$ 236
Personal income	3,084	2,786	298
Corporation	2,546	2,316	230
Liquid Fuels	998	971	27
Other	1,058	978	80
Total Taxes	$ 11,759	$ 10,888	$ 871

General Governmental Expenditures by Function. Expenditures of the Commonwealth's General, Special Revenue, Debt Service and Capital Projects Funds totalled $19,449 million, reflecting an increase of $1,202 million over the previous fiscal year. Of the total amount expended, public health and welfare accounted for 36.9 percent, public education for 26.6 percent and transportation, 11.9 percent.

Expenditure Function	Fiscal Years Ended June 30, 1989	June 30, 1988	Increase (Decrease)
General government	$ 1,873	$ 1,741	$ 132
Protection of persons and property	1,092	1,022	70
Public health and welfare	7,175	6,705	470
Public education	5,166	4,761	405
Conservation of natural resources	369	335	34
Economic development and assistance	350	346	4
Transportation	2,305	2,172	133
Capital outlay	230	274	(44)
Debt service:			
Principal retirement	440	482	(42)
Interest and fiscal charges	449	409	40
Total Expenditures	$ 19,449	$ 18,247	$ 1,202

Expenditures for public health and welfare increased by $470 million or 7.0 percent over the previous fiscal year. Increases in financial support to the economically needy, aid to families with dependent children, and medical assistance comprise the largest portion of the public health and welfare expenditure increase.

Expenditures for public education increased by $405 million or 8.5 percent over the previous fiscal year. Areas of increase include aid to local school districts for basic instruction, vocational instruction, debt service, pupil transportation, employe retirement including social security, and special education programs.

DEBT ADMINISTRATION

The Constitution of the Commonwealth of Pennsylvania permits the incurrence of debt, without approval of the electorate, for capital projects specifically authorized in a capital budget. Capital project debt outstanding cannot exceed one and three quarters (1.75) times the average of the annual tax revenues deposited in all funds during the previous five fiscal years. The certified constitutional debt limit at August 31, 1989 was $22.2 billion. Outstanding capital project debt at August 31, 1989 amounted to $4.0 billion.

In addition to constitutionally authorized capital project debt, the Commonwealth may incur debt for electorate approved programs, such as economic revitalization, land and water development, and water facilities restoration; and for special purposes approved by the General Assembly, such as disaster relief.

The total general obligation bond indebtedness outstanding at June 30, 1989 was $4,705 million. Total debt service expenditures paid from General Fund and Motor License Fund appropriations during the fiscal year ended June 30, 1989 amounted to $613.8 million.

During the fiscal year ending June 30, 1990 the Office of the Budget projects general obligation bond issuances amounting to $428 million, a decrease of $76 million as compared to actual bond issuances of $504 million, during the fiscal year ended June 30, 1989. This forecast reflects the need to make investments in the Commonwealth's capital infrastructure, particularly interstate highway construction under the Federal Advance Construction Interstate Program, highway bridges, mass transportation and water supply systems. Debt principal retirements of $412 million are forecast during fiscal 1990. The table that follows shows total outstanding long-term indebtedness for general obligation bonds (expressed in millions) at the end of the seven most recent fiscal years.

At June 30	Outstanding Bond Indebtedness
1983	$4,487
1984	4,484
1985	4,535
1986	4,529
1987	4,559
1988	4,699
1989	4,705

In December 1985, June 1986, and April 1987, the Commonwealth issued general obligation refunding bonds totalling $224.1 million. The proceeds are being used to retire general obligation debt incurred in 1980, 1981, 1982 and 1984 at higher interest rates. This will result in estimated savings of $11.6 million over the life of the refunding bonds, or $9.1 million when discounted to present value. In November 1988, the Commonwealth issued $127.6 million in general obligation bonds to advance refund $146.2 million of outstanding General State Authority (GSA) bonds. The Commonwealth advance refunded the GSA bonds to reduce its total debt service payments over the next nine years by $3.6 million and to obtain an economic gain of $3.5 million.

In addition to general obligation bonds, the Commonwealth issues tax anticipation notes to meet operating cash needs during certain months of the fiscal year. Tax anticipation notes may be issued only for the General Fund and the Motor License Fund. They may not exceed 20 percent of the funds' estimated revenues for the year, and must mature during the fiscal year in which they are issued. Cash shortages occur during the fiscal year because tax receipts, unlike cash disbursements, are concentrated in the fourth quarter of the fiscal year.

During the fiscal year ending June 30, 1990, General Fund revenues and budgeted expenditures, adjusted for estimated lapses and encumbrances, are expected to increase by 1 percent and 2 percent, respectively. As the result of tax changes and expenditure patterns that are likely to affect the cash receipts flow, the Commonwealth anticipates issuance of $850 million in General Fund tax anticipation notes during the current fiscal year. General Fund tax anticipation note or commercial paper issuances (expressed in millions) during the five most recent fiscal years are shown below. Motor License Fund tax anticipation notes were not issued for the periods shown and are not expected to be issued in the future.

Fiscal Year Issue Ended June 30	For the Account of the General Fund	Amount Issued as a Percent of General Fund Tax Revenues
1986	$500	5%
1987	490	5
1988	700	7
1989	699	7
1990	850 Estimated	7[a]

[a] As a percent of estimated revenues.

CASH MANAGEMENT

The Treasury Department is required by the Commonwealth's Fiscal Code to deposit monies of the Commonwealth, excluding certain component units, in state depositories approved by the Board of Finance and Revenue. Monies deposited are not required to be segregated by fund.

In addition, the Treasury Department is empowered to invest monies of the Commonwealth that have accumulated beyond the ordinary needs of the various Commonwealth Funds. Temporary investments held by the Treasury Department by type, average maturity in days and percent at June 30, 1989 are depicted below.

Investment Type	Average Maturity (days)	Percent
Commercial Paper (Moody's Prime One Rating or Equivalent)	24	45.5%
United States Treasury and Agency Obligations	204	25.2
Repurchase Agreements	13	24.9
Certificates of Deposit	241	.7
Bankers' Acceptances (Moody's Aa Rating or Equivalent)	21	.2
Medium-Term Corporate Notes	262	.5
Other	180	3.0
		100.0%

Temporary investments held by the Treasury Department amounted to $4,898 million as of June 30, 1989. Temporary investments were made by specific funds. Interest on investments made by the Treasury Department during the fiscal year amounted to $407 million at an average yield of 8.495 percent.

RISK MANAGEMENT

The Commonwealth maintains ongoing training and information programs to reduce risks associated with employe injury and negligence, contract compliance, tort liabilities and property losses. As more fully described at Note O to the financial statements, the Commonwealth became self-insured for employe disability and medical claims on July 1, 1983. The Commonwealth is also self-insured for

tort liabilities, including automobile, employe and transportation-related claims. Financial resources are accumulated to establish reserves to fund self-insured claims. Third-party coverage is obtained for property losses in excess of one million dollars per occurrence, to a limit of one hundred million dollars per occurrence. Coverage for property losses less than one million dollars or more than one hundred million dollars is maintained through the Commonwealth's self-insurance program.

CAPITAL PROJECTS FUNDS

Proceeds of general obligation bonds are generally accounted for in the capital projects funds. Completed projects and construction in progress at the fiscal year end are accounted for as assets and are capitalized in the General Fixed Assets Account Group. Projects completed during the fiscal year totalled $95 million; construction in progress at June 30, 1989 amounted to $40 million. Authorized but unissued general obligation bonds at June 30, 1989 totalled $9,635 million.

ENTERPRISE, FIDUCIARY AND COLLEGE AND UNIVERSITY FUNDS

All enterprise funds, except for the Pennsylvania Infrastructure Investment Authority (PENNVEST), reported retained earnings for the fiscal year ended June 30, 1989. As more fully described at Note C to the financial statements, PENNVEST reported a retained earnings deficit of $1.8 million at June 30, 1989. The overall increase in retained earnings for enterprise funds amounted to $161.7 million.

Fiduciary type funds, including expendable trust funds and pension trust funds, reported fund balances of $24,290 million at June 30, 1989, as compared to $21,387 million at June 30, 1988.

The total fund equity for the College and University Funds at June 30, 1989 was $390 million, as compared to $334 million at June 30, 1988.

GENERAL FIXED ASSETS

General fixed assets of the Commonwealth are those used in the performance of general governmental functions. The fixed assets of the proprietary and the fiduciary fund types and the College and University Funds are not included in the General Fixed Assets Account Group, except for certain real property of the SSHE. General fixed assets as of June 30, 1989 amounted to $2,833 million at actual or estimated historical cost. Depreciation is not recognized for the Commonwealth's general fixed assets. Infrastructure assets, consisting primarily of highways, roads and bridges, are not recorded in the General Fixed Assets Account Group. Both of these practices are in conformity with GAAP.

INDEPENDENT AUDIT

The audit of the GPFS, evidenced by the Independent Auditors' Report submitted herewith, was performed jointly by the Department of the Auditor General and the independent public accounting firm of Peat Marwick Main & Co. It was performed pursuant to the authority vested in the Auditor General and the Governor under Section 402 of the Fiscal Code of 1929 and in the Governor under Section 701 of the Administrative Code of 1929.

The Fiscal Code provides that the Department of the Auditor General shall make all audits of transactions after their occurrence, which may be necessary, in connection with the administration of the financial affairs of the government of the Commonwealth of Pennsylvania and that it shall be the duty of the Governor to make such audits of the affairs of the Department of the Auditor General.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its Comprehensive Annual Financial Report as of and for the fiscal years ended June 30, 1988, 1987 and 1986.

To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report which conforms to GFOA standards and satisfy both generally accepted accounting principles and applicable legal requirements. A certificate of achievement is valid for a period of one year only.

We believe the Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 1989 conforms to the GFOA standards and we are submitting it to the GFOA to determine its eligibility for a Certificate of Achievement for Excellence in Financial Reporting.

OUTLOOK

The national economy appears to be entering a period of sub-par economic growth in the last half of 1989. Slower growth of exports, reduced investment in business facilities and equipment and slower growth in consumer spending, especially for durable goods such as automobiles and home furnishings, are bringing economic growth in the second half of 1989 to a level below that of the first half. Most economic forecasts project this period of slower economic activity to last for three to four quarters but not to turn into a recession. A return to a stronger economy is expected to take place slowly through 1991.

Based on the above economic outlook and current revenue and expenditure forecasts, the Commonwealth is projecting a $1.2 million General Fund budgetary balance (unappropriated surplus) at the end of the 1989-90 fiscal year as follows (amounts in millions):

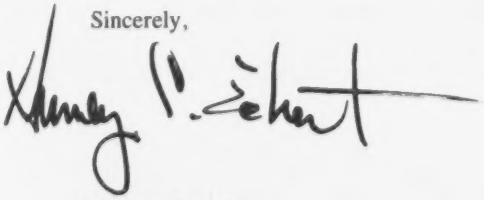
Fund balance, November 30, 1989	$ 5.3
Net revenue adjustments	(52.6)
Estimated lapses at June 30, 1990	97.0
Potential supplemental appropriations	(48.5)
Projected fund balance, June 30, 1990	$ 1.2

The official budgetary revenue estimated for the 1989-90 fiscal year is $12,432.5 million. Appropriations currently are $11,924.0 million. Potential additional 1989-90 appropriations for cost of current programs are estimated to be $48.5 million, an amount that may be revised during the development of the 1990-91 fiscal year budget.

ACKNOWLEDGEMENTS

In conclusion, I wish to express my appreciation to the staff of the various Commonwealth agencies whose time and dedicated effort made this report possible and, at the same time, to reaffirm my commitment to you to maintain the highest standards of accountability in financial reporting to the citizens of the Commonwealth.

Sincerely,



Harvey C. Eckert
Deputy Secretary for Comptroller Operations
Office of the Budget

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Pennsylvania

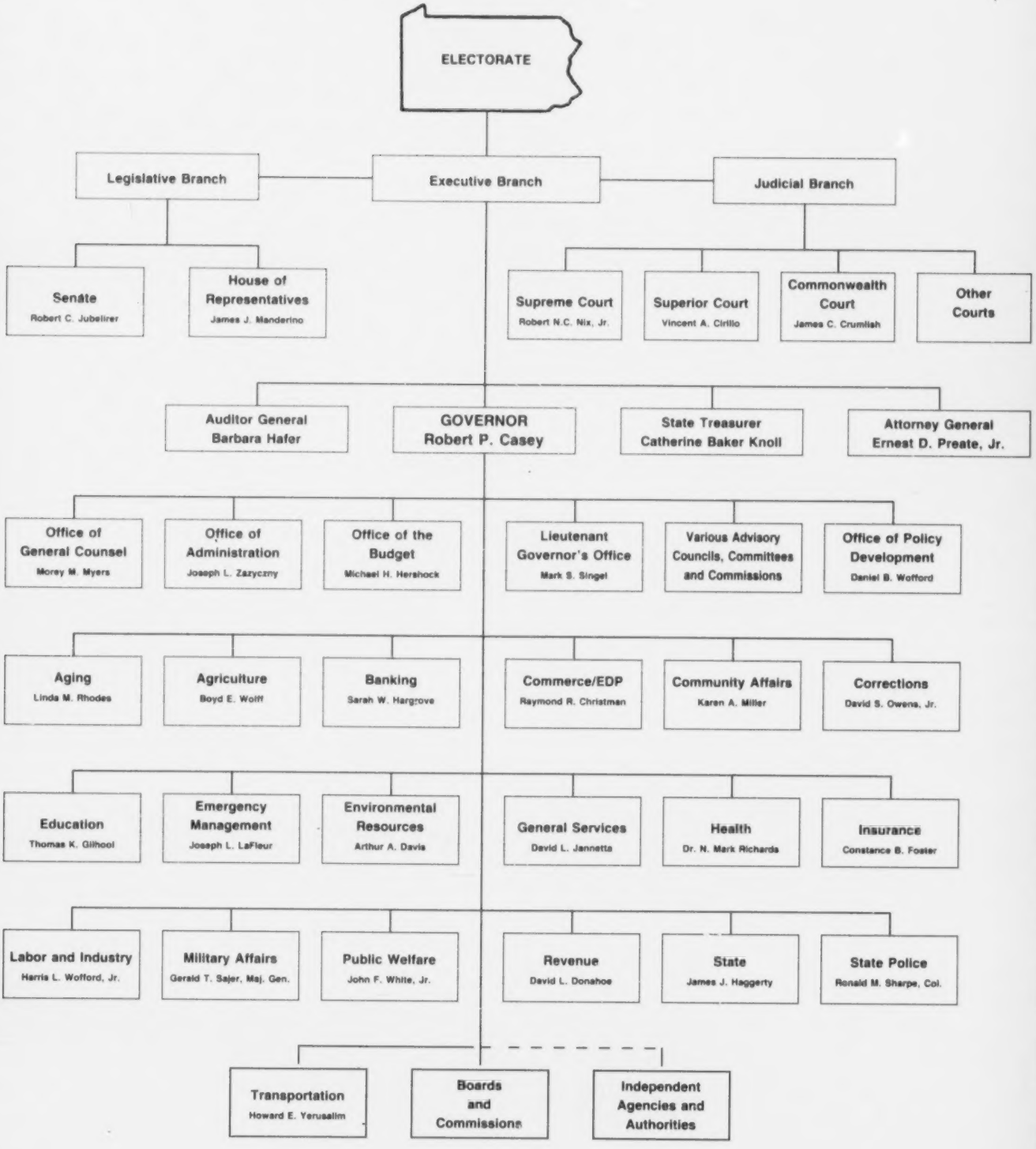
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1988

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFR's) achieve the highest standards in government accounting and financial reporting.

President

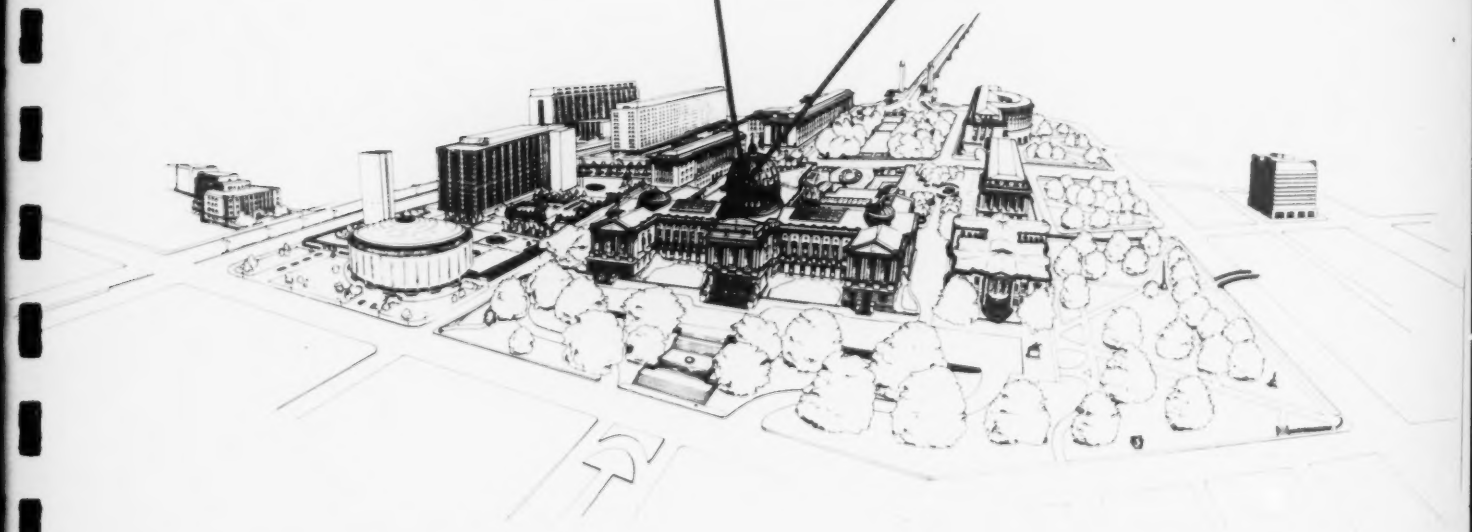
Executive Director

COMMONWEALTH OF PENNSYLVANIA
ORGANIZATION AND OFFICIALS CHART
JUNE 30,1989



Financial Section

Main
Capitol
Building



Main Capitol Building

Dedicated on October 4, 1906, by President Theodore Roosevelt, this richly ornamented Capitol building was designed by Joseph M. Huston in the classic style adapted from the architecture of the Italian Renaissance. The five-story exterior is of Vermont granite, and the roof is of green glazed tile. The building measures 520 feet long and 254 feet wide and covers two acres of ground. Within its one-half mile circumference are more than 600 rooms.

Commonwealth of Pennsylvania
Office of the Auditor General
Harrisburg 17120

BARBARA HAFER
AUDITOR GENERAL

KPMG Peat Marwick
Certified Public Accountants

Peat Marwick Main & Co.
225 Market Street Suite 300
P.O. Box 1190
Harrisburg, PA 17108-1190

Independent Auditors' Report

The Honorable Robert P. Casey
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

We have jointly audited the general purpose financial statements of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 1989, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not jointly audit the financial statements of certain component units, which represent 47, 50, 51 and 79 percent of total assets and 3, 75, 55 and 41 percent of total revenues, respectively, of the Special Revenue, Debt Service, Capital Projects and Enterprise Fund Types, 90 percent of total assets of the Trust and Agency Fund Type, all revenues of the Pension Trust Funds, and 17 percent of total liabilities of the General Long-Term Obligations Account Group, and we did not jointly audit the financial statements of the State System of Higher Education which represent the amounts shown as the College and University Funds. The financial statements of these component units and the College and University Funds were audited by other auditors, including Peat Marwick Main & Co. acting separately, whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for those component units and the College and University Funds, is based solely on the reports of the other auditors. Peat Marwick Main & Co. has audited separately 18 and 63 percent of total assets and 12 and 63 percent of total revenues, respectively, of the Enterprise Funds and Pension Trust Funds and the financial statements of the State System of Higher Education.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Pennsylvania at June 30, 1989, and the results of its operations and the changes in financial position of its Proprietary Fund Types and Pension Trust Fund for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Commonwealth of Pennsylvania. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, and based upon the reports of other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report and, therefore, express no opinion thereon.

Barbara Hafer

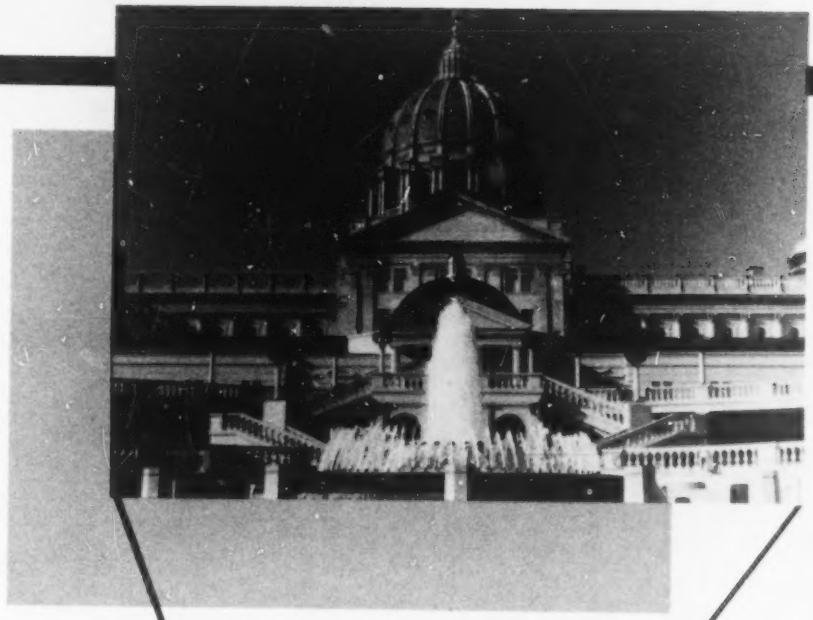
Peat Marwick Main & Co.

November 17, 1989

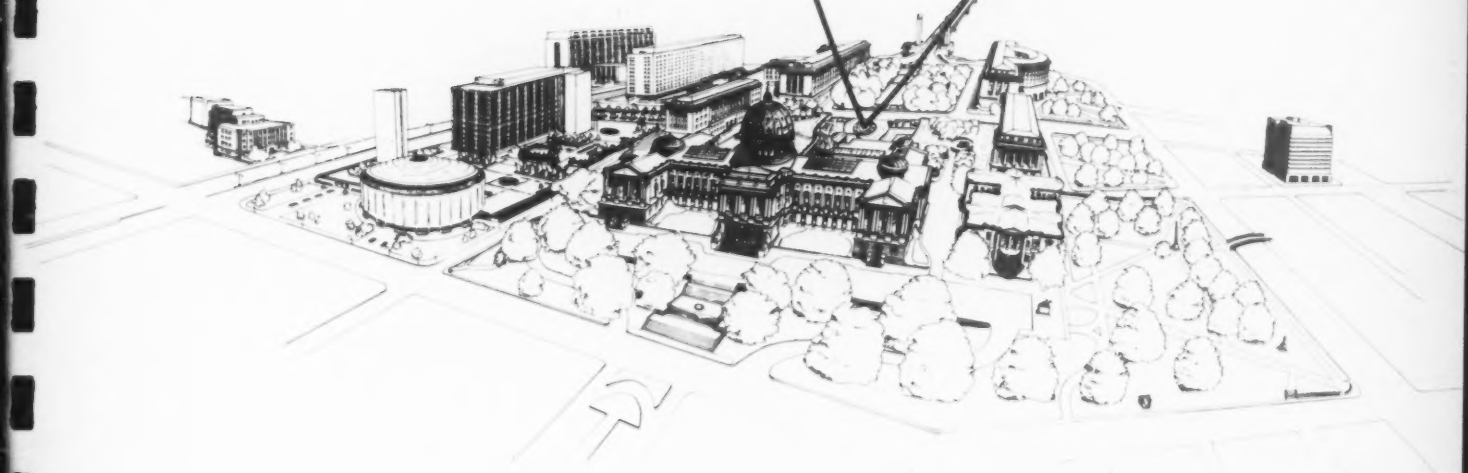
East Wing Addition to the Main Capitol

Designed in the "post modernist" style by Celli-Flynn Associates/H.F. Lenz Co., the 950,000 square-foot addition contains legislative office space and underground parking for 840 cars. Completed in 1986, it complements the Italian Renaissance style of the Capitol and provides the long-missing focal point called for in Brunner's 1916 master plan. The entrance plaza evokes Bernini's colonnade semicircling Vatican Square. Dominating the approach to the East Wing Addition to the Capitol at the hypothetical intersection of Commonwealth Avenue and State Street, the polished black granite circular fountain is computerized to create various floodlit water displays including a "dome of water."

General Purpose Financial Statements



East Wing Addition to the Main Capitol



COMBINED BALANCE SHEET
All Fund Types and Account Groups

June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Type	Account Groups			
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	College and University Funds	Totals (Memorandum Only)
ASSETS											
Cash—Note D	$ 47,494	$ 29,726	$ 34	$ 46	$ 15,163	$ 446	$ 4,559	$	$	$ 5,909	$ 103,377
Cash with fiscal agents—Note D	1,535	4,317	30,717	3,362			1,519,236				1,559,167
Temporary investments—Note D	988,330	956,725	143,469	330,650	2,577,271	8,030	3,329,821			140,856	8,475,152
Long-term investments—Note D		18,537	52,647	26,534	1,278,081		19,086,605			8,700	20,471,104
Receivables, net:											
Taxes—Note G	525,583	138,853					287,054				951,490
Accounts	26,889	67,594			31,352	32	2,453			9,358	137,678
Accrued interest	4,599	8,655	2,169	3,558	74,384	69	310,769				404,203
Loans—Note G		107,699			2,760,795					19,391	2,887,885
Lease rental—Note G		1,208,204	37,523								1,245,727
Pension contributions							219,562				219,562
Other	845	2,567		892		52	15,918			5,222	25,496
Due from other funds—Note H	36,607	21,173	1,013	436	3,952	10,696	222,143			57,227	353,247
Due from other governments—Note F	510,630	90,572			10,720	817	29,510				642,249
Advances to other funds	70,175										70,175
Inventory					96,178	11,860				3,999	112,037
Fixed assets—Note E					1,453,736	41,403	7,688	2,832,863		336,639	4,672,329
Less: accumulated depreciation					(696,859)	(19,687)	(1,413)				(717,959)
Other assets	150	16			43,872	36	178,137			17,303	239,514
Amounts available in Commonwealth Funds for:											
Retirement of general obligation bonds									4,939		4,939
Retirement of revenue bonds									132,812		132,812
Other general long-term obligations—Note B									213,633		213,633
Amounts to be provided for the retirement of:											
General obligation bonds									4,700,263		4,700,263
Revenue bonds									1,260,429		1,260,429
Other general long-term obligations									2,165,025		2,165,025
TOTAL ASSETS	$ 2,212,837	$ 2,654,638	$ 267,572	$ 365,478	$ 7,648,645	$ 53,754	$25,212,042	$ 2,832,863	$ 8,477,101	$ 604,604	$50,329,534

— See notes to financial statements. —

COMBINED BALANCE SHEET
All Fund Types and Account Groups—(continued)

June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

LIABILITIES AND FUND EQUITY	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Type	Account Groups			
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	College and University Funds	Totals (Memorandum Only)
Liabilities:											
Accounts payable and accrued liabilities	$ 881,206	$ 501,908	$ 34	$ 23,130	$ 222,596	$ 5,893	$ 238,504	$	$	$ 59,878	$ 1,933,149
Unsettled investment purchases							246,576				246,576
Tax refunds payable	211,470	2,398					1,477				215,345
Matured debt principal and interest payable	1,535		24,259								25,794
Due to other funds—Note H	222,792	40,039	1	7,133	18,908	8,112	4,127			67,548	368,660
Due to other governments	265,835	19,283		12	9,086	23	190,220				484,459
Deferred revenue	11,083	1,215,460	37,523		30,060	1,303	238			20,204	1,315,871
Notes payable—Note J			67,000		389,518					4,612	461,130
Demand revenue bonds payable—Note J					435,000						435,000
Advances from other funds		2,175			68,000						70,175
Other liabilities			1,004		114,219	132	241,354			9,419	366,128
Insurance loss liability					663,527						663,527
General obligation bonds payable—Note K									4,705,202		4,705,202
Revenue bonds payable—Note K					3,251,170				1,393,241		4,644,411
Capital lease and other general long-term obligations—Note K									2,378,658	52,580	2,431,238
TOTAL LIABILITIES	1,593,921	1,781,263	129,821	30,275	5,202,084	15,463	922,496		8,477,101	214,241	18,366,665
Fund Equity:											
Contributed capital					743,928	9,187					753,115
Investment in fixed assets								2,832,863		282,363	3,115,226
Retained earnings:											
Reserved—Note B					1,018,806						1,018,806
Unreserved—Note C					683,827	29,104					712,931
Fund balance:											
Reserved for:											
Encumbrances	92,111	204,869		211,674			166			10,369	519,189
Advances	70,175										70,175
Pension benefits							22,311,112				22,311,112
Loans receivable		107,699								20,937	128,636
Endowment and similar funds										9,589	9,589
Restricted fund balance										23,141	23,141
Other	995									10,654	11,649
Unreserved:											
Designated for:											
Capital projects				187,752							187,752
Debt service:											
Retirement of general obligation bonds			4,939								4,939
Retirement of revenue bonds			132,812								132,812
Highways		79,478									79,478
Other—Note B	455,635	43,350					119,227				618,212
Undesignated (deficit)—Note C		437,979		(64,223)			1,859,041			33,310	2,266,107
TOTAL FUND EQUITY	618,916	873,375	137,751	335,203	2,446,561	38,291	24,289,546	2,832,863		390,363	31,962,869
TOTAL LIABILITIES AND FUND EQUITY	$ 2,212,837	$ 2,654,638	$ 267,572	$ 365,478	$ 7,648,645	$ 53,754	$25,212,042	$ 2,832,863	$ 8,477,101	$ 604,604	$50,329,534

— See notes to financial statements. —

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
All Governmental Fund Types and Expendable Trust Funds

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Governmental Fund Types				Fiduciary Fund Type	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Totals (Memorandum Only)
REVENUES:						
Taxes	$10,722,085	$ 1,036,682	$	$	$ 5,870	$11,764,637
Unemployment taxes					1,385,203	1,385,203
Licenses and fees	99,874	529,496			21,027	650,397
Intergovernmental	3,275,379	964,282		9,048		4,248,709
Charges for sales and services	381,772	146,919				528,691
Investment income	77,279	97,892	26,359	24,660	135,609	361,799
Lottery revenues		1,575,312				1,575,312
Lease rental principal		80,590				80,590
Lease rental interest		59,053				59,053
Other	47,439	79,712	8,793	5,664	327	141,935
TOTAL REVENUES	14,603,828	4,569,938	35,152	39,372	1,548,036	20,796,326
EXPENDITURES:						
Current:						
General government	751,714	1,121,752			12,358	1,885,824
Protection of persons and property	1,091,962	373			97,548	1,189,883
Public health and welfare	6,314,381	860,858			961,778	8,137,017
Public education	5,009,526	4,406		152,370	224	5,166,526
Conservation of natural resources	284,168	84,738				368,906
Economic development and assistance	237,642	48,963		63,162		349,767
Transportation	230,267	2,029,264		45,291		2,304,822
Capital outlay	31,797	39,556		158,400		229,753
Debt service:						
Principal retirement			440,152			440,152
Interest and fiscal charges	31,021	8,862	408,033	566	42,561	491,043
TOTAL EXPENDITURES	13,982,478	4,198,772	848,185	419,789	1,114,469	20,563,693
REVENUES OVER (UNDER) EXPENDITURES	621,350	371,166	(813,033)	(380,417)	433,567	232,633
OTHER FINANCING SOURCES (USES):						
Bond proceeds		2,767		525,736		528,503
Refunding bond proceeds			163,216			163,216
Operating transfers in—Note H	344,078	348,959	824,289	5,603	12	1,522,941
Operating transfers out—Note H	(908,047)	(798,196)	(19,646)	(141,168)	(41,000)	(1,908,057)
Payment to refunded bond escrow agent			(163,033)			(163,033)
Capital lease and installment purchase obligations	11,752	22,455				34,207
Other		(458)	(4,679)	(10,799)		(15,936)
NET OTHER FINANCING SOURCES (USES)	(552,217)	(424,473)	800,147	379,372	(40,988)	161,841
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	69,133	(53,307)	(12,886)	(1,045)	392,579	394,474
FUND BALANCES, JULY 1, 1988	572,765	933,595	142,149	360,296	1,585,855	3,594,660
RESIDUAL EQUITY TRANSFERS—NOTE H	(22,982)	(6,913)	8,488	(24,048)		(45,455)
FUND BALANCES, JUNE 30, 1989	$ 618,916	$ 873,375	$ 137,751	$ 335,203	$ 1,978,434	$ 3,943,679

— See notes to financial statements. —

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN UNRESERVED/UNDESIGNATED FUND BALANCES— BUDGET AND ACTUAL (BUDGETARY BASIS)
General and Budgeted Special Revenue Funds

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	General Fund			Budgeted Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
State Programs:						
Taxes, net of refunds	$10,648,470	$10,773,476	$ 125,006	$ 958,710	$ 940,223	$ (18,487)
Lottery receipts	. . . .	. . . .	. . . .	836,181	893,431	57,250
Liquor store profits transfer	14,000	16,000	2,000	. . . .	. . . .	. . . .
Licenses and fees	41,100	39,429	(1,671)	450,778	460,877	10,099
Fines, penalties and interest	13,400	18,372	4,972	. . . .	. . . .	. . . .
Departmental services	479,911	479,911	. . . .	27,843	27,843	. . . .
Other	208,000	225,251	17,251	90,405	106,371	15,966
TOTAL STATE PROGRAMS	11,404,881	11,552,439	147,558	2,363,917	2,428,745	64,828
Federal Programs	3,531,657	3,360,142	(171,515)	817,914	762,151	(55,763)
TOTAL REVENUES	14,936,538	14,912,581	(23,957)	3,181,831	3,190,896	9,065
EXPENDITURES:						
State Programs:						
General government	1,014,610	967,010	47,600	535,780	518,149	17,631
Protection of persons and property	926,390	924,517	1,873	171,471	171,371	100
Public health and welfare	3,529,270	3,522,152	7,118	682,724	682,157	567
Public education	5,372,301	5,363,807	8,494	2,300	1,910	390
Conservation of natural resources	222,275	219,265	3,010	. . . .	. . . .	. . . .
Economic development and assistance	227,022	226,455	567	. . . .	. . . .	. . . .
Transportation	227,075	226,700	375	1,169,394	1,155,368	14,026
TOTAL STATE PROGRAMS	11,518,943	11,449,906	69,037	2,561,669	2,528,955	32,714
Federal Programs	3,531,657	3,360,142	171,515	817,914	762,151	55,763
TOTAL EXPENDITURES	15,050,600	14,810,048	240,552	3,379,583	3,291,106	88,477
REVENUES OVER (UNDER) EXPENDITURES	(114,062)	102,533	216,595	(197,752)	(100,210)	97,542
OTHER FINANCING SOURCES:						
Prior year lapses	187,888	187,888	. . . .	50,322	50,322	. . . .
Increase of budgeted revenues	161,151	. . . .	(161,151)	. . . .	. . . .	. . . .
TOTAL OTHER FINANCING SOURCES	349,039	187,888	(161,151)	50,322	50,322	. . . .
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	234,977	290,421	55,444	(147,430)	(49,888)	97,542
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JULY 1, 1988	94,658	94,658	. . . .	399,420	399,420	. . . .
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 1989	$ 329,635	$ 385,079	$ 55,444	$ 251,990	$ 349,532	$ 97,542

— See notes to financial statements. —

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES
All Proprietary Fund Types and Pension Trust Funds

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	
	Enterprise	Internal Service	Pension Trust—Note I	Totals (Memorandum Only)
OPERATING REVENUES:				
Sales and services	$ 1,036,678	$ 42,672	$	$ 1,079,350
Investment income	246,556	. . . .	2,118,891	2,365,447
Interest on notes and loans	202,859	. . . .	. . . .	202,859
Pension contributions	. . . .	. . . .	1,798,819	1,798,819
Other	7,685	34	. . . .	7,719
TOTAL OPERATING REVENUES	1,493,778	42,706	3,917,710	5,454,194
OPERATING EXPENSES:				
Cost of sales and services	1,121,960	32,812	15,779	1,170,551
Interest expense	232,673	. . . .	15,937	248,610
Depreciation	64,634	5,326	682	70,642
Bad debts	16,223	. . . .	. . . .	16,223
Benefit payments and refunds	. . . .	. . . .	1,376,269	1,376,269
TOTAL OPERATING EXPENSES	1,435,490	38,138	1,408,667	2,882,295
OPERATING INCOME	58,288	4,568	2,509,043	2,571,899
NONOPERATING REVENUES (EXPENSES):				
Investment income	28,424	1,078	. . . .	29,502
Interest expense	(11,066)	(125)	. . . .	(11,191)
Other	(4,450)	. . . .	. . . .	(4,450)
NONOPERATING REVENUES, NET	12,908	953	. . . .	13,861
INCOME BEFORE OPERATING TRANSFERS	71,196	5,521	2,509,043	2,585,760
OPERATING TRANSFERS:				
Operating transfers in—Note H	166,522	. . . .	15,689	182,211
Operating transfers out—Note H	(76,000)	. . . .	(15,248)	(91,248)
TOTAL OPERATING TRANSFERS	90,522	. . . .	441	90,963
NET INCOME	161,718	5,521	2,509,484	2,676,723
RETAINED EARNINGS/FUND BALANCES, JULY 1, 1988, AS RESTATED, NOTE C	1,540,915	23,583	19,801,628	21,366,126
RETAINED EARNINGS/FUND BALANCES, JUNE 30, 1989	$ 1,702,633	$ 29,104	$22,311,112	$24,042,849

— See notes to financial statements. —

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
All Proprietary Fund Types and Pension Trust Fund

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	
	Enterprise	Internal Service	Pension Trust Note I	Totals (Memorandum Only)
CASH PROVIDED FROM (USED FOR) OPERATIONS:				
Net income	$ 161,718	$ 5,521	$ 1,564,711	$ 1,731,950
Items not using (providing) cash:				
Depreciation	64,634	5,326	667	70,627
Net amortization	640	....	1,064	1,704
Net gain on sale of long-term investments	(11,895)	....	(3,239)	(15,134)
	215,097	10,847	1,563,203	1,789,147
Increase in receivables	(707,091)	(1,352)	(105,282)	(813,725)
Decrease (increase) in due from other funds	59,377	(2,102)	(13,021)	44,254
Decrease in due from other governments	6,475	144	....	6,619
Decrease (increase) in inventory	16,757	(1,727)	....	15,030
Increase (decrease) in accounts payable and accrued liabilities	39,838	(401)	20,220	59,657
Increase (decrease) in due to other funds	104	124	(4,383)	(4,155)
Increase (decrease) in due to other governments	(7,918)	4	....	(7,914)
Increase (decrease) in deferred revenue	(2,118)	738	....	(1,380)
Increase in insurance loss liability	64,737	....	....	64,737
TOTAL CASH PROVIDED FROM (USED FOR) OPERATIONS	(314,742)	6,275	1,460,737	1,152,270
CASH PROVIDED FROM (USED FOR) INVESTMENT ACTIVITIES:				
Increase in other current assets	(5,507)	(30)	(55,783)	(61,320)
Proceeds from sale of long-term investments	380,963	....	9,192,230	9,573,193
Purchase of long-term investments	(244,674)	....	(10,765,268)	(11,009,942)
Increase (decrease) in other current liabilities	(2,888)	(10)	123,018	120,120
Additions to fixed assets	(107,309)	(7,531)	(3,416)	(118,256)
NET CASH FROM (USED FOR) INVESTMENT ACTIVITIES	20,585	(7,571)	(1,509,219)	(1,496,205)
CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES:				
Issuance of revenue bonds	1,030,599	....	....	1,030,599
Increase in contributed capital	109,493	....	....	109,493
Increase in notes payable	387,496	....	....	387,496
Increase in demand revenue bonds payable	235,000	....	....	235,000
Redemption of long-term obligations	(538,801)	....	....	(538,801)
NET CASH PROVIDED FROM FINANCING ACTIVITIES	1,223,787	....	....	1,223,787
INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS	929,630	(1,296)	(48,482)	879,852
CASH AND TEMPORARY INVESTMENTS, JULY 1, 1988	1,662,804	9,772	2,036,878	3,709,454
CASH AND TEMPORARY INVESTMENTS, JUNE 30, 1989	$ 2,592,434	$ 8,476	$ 1,988,396	$ 4,589,306

— See notes to financial statements. —

COMBINED STATEMENT OF CHANGES IN FUND BALANCES
College and University Funds

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Current Funds				Plant Funds				
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant	Totals
REVENUES AND OTHER ADDITIONS:									
Unrestricted current funds	$ 330,633	$	$	$	$	$	$	$	$ 330,633
Gifts and bequests		5,444		79	287		24	1,436	7,270
Grants and contracts		71,370	212		3,377				74,959
Federal advances			1,579						1,579
Endowment income		261	1	1					263
Investment income		264	90		904	23	214		1,495
Interest on loans receivable			382						382
Expended for plant facilities — Net of disposals (including $15,217 charged to current funds expenditures)					9,433			46,040	55,473
Retirement of indebtedness					24,646			9,684	34,330
Other				138					138
TOTAL REVENUES AND OTHER ADDITIONS	330,633	77,339	2,264	218	38,647	23	238	57,160	506,522
EXPENDITURES AND OTHER DEDUCTIONS:									
Educational and general	523,963	78,397							602,360
Auxiliary enterprises	78,597	117							78,714
Loan cancellations			447						447
Administrative and collection costs			292						292
Expended for plant facilities					24,438	11,178			35,616
Retirement of indebtedness					5,686		9,684		15,370
Interest on indebtedness					306		2,547		2,853
Other		1,019	30	500	9,936		2,215	19,470	33,170
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	602,560	79,533	769	500	40,366	11,178	14,446	19,470	768,822
TRANSFER AND ALLOCATION AMONG FUNDS — ADDITIONS (DEDUCTIONS):									
Mandatory:									
Principal and interest	(13,920)				1,130		12,790		
Other	(1,995)		2		(91)	2,084			
Nonmandatory:									
Operating transfers in from General Fund	311,567	4,200				3,800		27	319,594
Other	(26,269)	(5)		199	12,738	13,337			
TOTAL TRANSFERS AND ALLOCATIONS	269,383	4,195	2	199	13,777	19,221	12,790	27	319,594
NET INCREASE (DECREASE) FOR THE YEAR	(2,544)	2,001	1,497	(83)	12,058	8,066	(1,418)	37,717	57,294
FUND BALANCES, JULY 1, 1988, AS RESTATED, NOTE C	28,625	7,583	19,440	4,029	9,851	16,641	2,254	244,646	333,069
FUND BALANCES, JUNE 30, 1989	$ 26,081	$ 9,584	$ 20,937	$ 3,946	$ 21,909	$ 24,707	$ 836	$ 282,363	$ 390,363

— See notes to financial statements. —

COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
College and University Funds

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)		
	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	$ 209,210	$	$ 209,210
Government grants and contracts:			
State	327	22,254	22,581
Federal	829	45,671	46,500
Private gifts, grants and contracts	1,535	5,694	7,229
Investment income	12,559	339	12,898
Endowment income	31	201	232
Activities of educational departments	1,466	. . . .	1,466
Other sources	18,166	518	18,684
Auxiliary enterprises	86,510	. . . .	86,510
TOTAL REVENUES	330,633	74,677	405,310
EXPENDITURES AND MANDATORY TRANSFERS:			
EXPENDITURES:			
Educational and general:			
Instruction	271,722	5,288	277,010
Research	522	1,299	1,821
Public service	4,729	7,757	12,486
Academic support	55,166	3,971	59,137
Student services	43,445	2,515	45,960
Operations and maintenance of plant	65,725	651	66,376
General institutional support	77,972	2,928	80,900
Student aid	4,682	53,988	58,670
TOTAL EDUCATIONAL AND GENERAL	523,963	78,397	602,360
Auxiliary enterprises	78,597	117	78,714
TOTAL EXPENDITURES	602,560	78,514	681,074
MANDATORY TRANSFERS:			
Renewal and replacement	1,993	. . . .	1,993
Principal and interest	13,920	. . . .	13,920
Other	2	. . . .	2
TOTAL MANDATORY TRANSFERS	15,915	. . . .	15,915
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	618,475	78,514	696,989
OPERATING TRANSFERS, OTHER TRANSFERS AND ADDITIONS:			
Operating transfers in from General Fund	311,567	4,200	315,767
Other transfers	(26,269)	5	(26,264)
Additions	. . . .	1,633	1,633
TOTAL OPERATING TRANSFERS, OTHER TRANSFERS AND ADDITIONS	285,298	5,838	291,136
NET INCREASE (DECREASE) IN FUND BALANCES	$ (2,544)	$ 2,001	$ (543)

— See notes to financial statements. —

COMMONWEALTH OF PENNSYLVANIA

NOTE A—FINANCIAL REPORTING ENTITY

For financial reporting purposes, in conformity with generally accepted accounting principles (GAAP), the Commonwealth includes all funds, agencies, boards, commissions and authorities over which the Commonwealth's executive or legislative branches exercise oversight responsibility. Oversight responsibility of the Commonwealth was determined on the basis of budget adoption, tax authority, funding, outstanding debt secured by revenues of the Commonwealth, authority to appoint an organization's governing board, and the organization's scope of service and financing relationship to the Commonwealth. The accompanying financial statements include all Commonwealth funds, agencies, boards and commissions required to submit an annual budget in accordance with Section 610 of the Administrative Code of 1929, as amended, and the following organizations:

General State Authority
Pennsylvania Higher Educational Facilities Authority
Pennsylvania Higher Education Assistance Agency
Pennsylvania Housing Finance Agency
Pennsylvania Industrial Development Authority
Pennsylvania Turnpike Commission
Public School Employes' Retirement System
State Employes' Retirement System
State Highway and Bridge Authority
State Public School Building Authority
State System of Higher Education

Certain independent charitable foundations and affiliated organizations of the State System of Higher Education, including alumni associations, trusts, student government associations, bookstores and science and research centers are not included in the Commonwealth financial reporting entity. Such foundations and organizations are separate and distinct from the respective universities — they are separately incorporated, have their own charters and are governed by representatives from the private sector. The foundations and affiliated organizations are responsible for their own daily operations, debt service, personnel and financial management.

The State-Related Universities listed below are not considered part of the reporting entity since they determine their own budgets without review or modification by the Commonwealth, have the power to fix and collect charges for their services, have the responsibility to fund their own deficits, dispose of their own surpluses, exercise complete autonomy over fiscal and institutional matters and may issue debt which is neither a statutory nor moral obligation of the Commonwealth:

Pennsylvania State University
Temple University
University of Pittsburgh
Lincoln University

The Pennsylvania Municipal Retirement System is excluded from the reporting entity because the System independently fixes and collects charges for providing municipal pension benefits, receives no funds from the Commonwealth, has no continuing policy-making affiliation with the Commonwealth and exercises complete autonomy over financial, operational and personnel matters.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting: In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording cash and/or other resources together with all related liabilities and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with the fund's special regulations, restrictions or limitations. In the Commonwealth, funds are established by legislative enactment or in certain cases by administrative action.

NOTE B—Summary of Significant Accounting Policies (continued)

The Commonwealth has established the following fund categories, fund types and account groups:

Governmental Funds

General Fund — Accounts for all financial resources except those required to be accounted for in another fund. The General Fund is the Commonwealth's major operating fund.

Special Revenue Funds — Account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes. Although included as a Special Revenue Fund, the State Lottery Fund reports on a basis of accounting which provides results which are the same as if the full accrual method of accounting were used, except for fixed assets and related depreciation, which are not reported.

Debt Service Funds — Account for the accumulation of resources, principally transfers from other funds, for the payment of general long-term debt principal and interest.

Capital Projects Funds — Account for financial resources to be used for the acquisition or construction of major capital facilities, including those provided to political subdivisions and other public organizations (other than those financed by Proprietary or Fiduciary Funds).

Proprietary Funds

Enterprise Funds — Account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges. The State Workmen's Insurance Fund is included for its fiscal year ended December 31, 1988, the Pennsylvania Turnpike Commission for its fiscal year ended May 31, 1989 and the State Stores Fund for its 52 week period ended June 27, 1989.

Internal Service Funds — Account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Funds

Trust and Agency Funds — Account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Expendable Trust Funds, Pension Trust Funds and Agency Funds. The State Employes' Retirement System, a Pension Trust Fund, and the Deferred Compensation Fund, an Agency Fund, are included for their fiscal years ended December 31, 1988.

Account Groups

General Fixed Assets Account Group — Accounts for all general fixed assets acquired or constructed for use by the Commonwealth in the conduct of its activities, except those accounted for in Proprietary and Pension Trust Funds.

General Long-Term Obligations Account Group — Accounts for all long-term obligations of the Commonwealth, except those accounted for in Proprietary Funds.

College and University Funds

Account for the operations of the Office of the Chancellor and the 14 state-owned universities, which comprise the State System of Higher Education, in accordance with existing authoritative accounting and reporting principles applicable to colleges and universities. Accordingly, the College and University Funds are an aggregation of the following funds:

Current Funds—Unrestricted — Account for economic resources of the institution which are expendable for any purpose in performing the primary objectives of the universities and have not been designated by the governing body for any other purpose.

NOTE B—Summary of Significant Accounting Policies (continued)

Current Funds—Restricted — Account for resources received from donors or other outside agencies that are restricted by them for specific operating purposes.

Loan Funds — Account for resources available for loans to students, faculty or staff.

Endowment and Similar Funds — Consist of endowment funds, term endowment funds and quasi-endowment funds.

Endowment Funds — Account for resources which the donor has stipulated, as a condition of the gift instrument, that the principal amount would be maintained inviolate and in perpetuity for investment. Investment earnings may be added to the principal or expended for restricted or unrestricted purposes, based on the donor's stipulation.

Term Endowment Funds — Account for resources, all or a part of the principal of which may be expended upon the passage of time or the occurrence of a particular event.

Quasi-Endowment Funds — Account for resources that the governing board of an institution, rather than an outside source, has determined will be retained and invested. Since this is an internal designation, the Board of Governors has the right to expend the principal of these funds at any time.

Plant Funds — Account for (a) resources available to acquire or repair institutional properties and to service debt incurred to acquire such properties and (b) the cost of fixed assets and the source from which the cost is funded.

Agency Funds — Account for resources held by the institution acting in the capacity of an agent for distribution to designated beneficiaries.

Measurement Focus and Basis of Accounting (GAAP): The accounts of the general, special revenue, debt service, capital projects funds (Governmental Fund Types), expendable trust and agency funds are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this measurement focus only current assets and current liabilities are normally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Fund balance represents a measure of "available spendable resources." Under the modified accrual basis of accounting, revenues of governmental and expendable trust funds are recognized in the year that they become both measurable and available (within 60 days of fiscal year-end) to pay current fiscal year liabilities. The Commonwealth accrues the following major revenue sources that are both measurable and available:

Sales and use taxes, cigarette taxes, corporation taxes, personal income taxes, liquid fuels taxes, liquor taxes, grant revenues, investment income, institutional revenues, lottery revenues and sales of goods and services.

Revenues from other sources are recognized when received. Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due unless resources have been provided for payment early in the subsequent fiscal year. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating cost to the fiscal year when the items are used. Expenditures for claims, judgments, compensated absences and employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources.

NOTE B—Summary of Significant Accounting Policies (continued)

The accounts of the enterprise, internal service (Proprietary Fund Types) and pension trust funds are reported using the flow of economic resources measurement focus and the accrual basis of accounting. Under this measurement focus all assets and liabilities associated with the operations of these funds are included on the balance sheet. Fund equity (i.e., net total assets) consists of contributed capital and retained earnings. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred.

The accounts of the College and University Funds are reported using the "financial flow" (spending) measurement focus and the accrual basis of accounting with the exception that depreciation expense related to plant fund assets is not recorded. This treatment is in accordance with the National Association of College and University Business Officers' (NACUBO) *College and University Business Administration (1982)* and the American Institute of Certified Public Accountants' (AICPA) *Audits of Colleges and Universities (1975)* for institutions of higher education.

Basis of Accounting (Budgetary). The Commonwealth's Constitution requires that the Governor submit a budget annually to be adopted by the General Assembly for the ensuing fiscal year. The General Assembly may add, change or delete any items in the budget proposed by the Governor, but the Governor retains veto power over the individual appropriations passed by the legislature. The Governor may also reduce individual appropriations, but may not increase them. A gubernatorial veto can be overridden only by a two-thirds majority of each House of the General Assembly.

The Commonwealth's budget is prepared essentially on a cash basis. Total appropriations enacted by the General Assembly may not exceed the ensuing fiscal year's estimated revenues, as developed by the Governor, plus (less) the unappropriated fund balance (deficit) of the preceding fiscal year, except for constitutionally authorized debt service payments.

Budgetary control is exercised at the appropriation level (legislative spending authority level). Encumbrances and expenditures cannot exceed appropriated amounts. Appropriation transfers between departments and any supplemental appropriations require both executive and legislative branch approval. Unencumbered and unexpended appropriations lapse at fiscal year end and become available for appropriation in the subsequent year. On the budgetary basis of accounting, certain estimated tax revenue accruals are recorded at fiscal year end for the General Fund and the Motor License Fund, a Special Revenue Fund. Accruals include sales and use taxes and personal income taxes, both applicable to the General Fund, and liquid fuels taxes applicable to the Motor License Fund, which are estimated to be owed to the Commonwealth but not collected at fiscal year end. Also, estimated encumbrances are established for all funds at fiscal year end to pay certain direct expenditures for salaries, wages, travel, and utility costs payable against current year appropriation authority but expended in the subsequent year. Over-estimates of prior year encumbrances are lapsed in the subsequent year and under-estimates are charged to subsequent year appropriation authority. A separate document, "Status of Appropriations" for the fiscal year ended June 30, 1989 reports the level of legal control at the appropriation level for specific departmental programs and functions, and is available from the Commonwealth's Office of the Budget.

Budgets are legally adopted each fiscal year for the following funds:

General Fund
Special Revenue Funds:
- State Lottery
- Motor License
- Workmen's Compensation Administration
- State Public School Building Authority

NOTE B—Summary of Significant Accounting Policies (continued)

Not all Special Revenue Funds are controlled by legally adopted budgets. Controls over spending in such Special Revenue Funds are maintained by use of spending limits (executive authorizations) established by the Governor.

The Commonwealth also makes appropriations to authorize expenditures for various capital projects. Appropriations for capital projects normally remain in effect until the completion of each project unless modified or rescinded.

Budget revenues in the accompanying Combined Statement of Revenues, Expenditures and Changes in Unreserved/Undesignated Fund Balances — Budget and Actual (Budgetary Basis) represent official estimates while expenditures represent amounts originally adopted and legally amended. Actual amounts are presented on the budgetary basis. Because the budgetary basis of accounting differs from GAAP, a reconciliation of the differences between budgetary basis and the GAAP basis of reporting is presented in Note M.

Pooled Cash: In accordance with the Pennsylvania Fiscal Code, cash balances of most Commonwealth funds are pooled by the Treasury Department. Cash balances are segregated by fund, but accounted for centrally for receipt and disbursement purposes. The law requires that collateral be pledged by banks and other financial institutions to guarantee the Commonwealth's cash on deposit.

Investments: Investments are maintained separately by fund. Temporary investments are stated at cost, which approximates market. Long-term investments are stated at cost for equity securities and at amortized cost for debt securities, except for various investments of the State Employes' Retirement System and the Deferred Compensation Fund, which are stated at market value.

Grants: Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures or expenses are incurred.

Inventories: Inventories of goods, materials and supplies are maintained by the Proprietary and College and University Funds. These inventories are valued at the lower of cost or market (first-in, first-out) for Proprietary and weighted average for College and University Funds. In the governmental fund types, inventories are accounted for on the purchases method.

Fixed Assets and Depreciation: General fixed assets are reported at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Public domain fixed assets (including highways, bridges, highway land and rights-of-way) are not capitalized. No depreciation is provided on general fixed assets. Land and buildings used by the State System of Higher Education (SSHE), which were acquired or constructed before July 1, 1983, the inception date for the SSHE, are reported in the Commonwealth's General Fixed Assets Account Group. All general fixed assets acquired or constructed by the SSHE subsequent to June 30, 1983 without the use of university funds or incurrence of the SSHE debt are also reported in the Commonwealth's General Fixed Assets Account Group. This accounting treatment is used to conform to the enabling legislation for the SSHE, which includes the vesting of title for the SSHE property.

Fixed assets related to Proprietary and Pension Trust Funds are reported in those funds at cost or estimated historical cost. Depreciation is reported on a straight-line basis over the fixed assets' estimated useful lives. The following lives are used:

Buildings	10-50 years
Improvements other than buildings	5-50 years
Furniture, machinery and equipment	3-25 years

Fixed assets reported by the SSHE are stated at cost. Depreciation is not recorded on the SSHE fixed assets.

NOTE B—Summary of Significant Accounting Policies (continued)

Amounts Available in Commonwealth Funds: The amounts available for retirement of Other General Long-Term Obligations are reported as part of Fund Balance "Designated—Other" at June 30, 1989 as follows (expressed in thousands):

General Fund:	
Employe disability claims	$ 85,855
Tort claims	9,068
	94,923
Expendable Trust Fund:	
Workmen's Compensation Security Trust claims	118,710
Total Amounts Available in Commonwealth Funds for Other General Long-Term Obligations	$ 213,633

Insurance Loss Liability: The insurance loss liability represents an estimate of the ultimate net costs of unpaid claims relating to policyholders of the State Workmen's Insurance Fund, an Enterprise Fund. These loss reserves are discounted at a 6% rate.

Self-Insurance: The Commonwealth is uninsured for property losses and self-insured for employe disability and tort claims. Reporting of self-insurance liabilities is described in Note O.

Compensated Absences: Employes accumulate annual leave based on 2% to 10% of regular hours paid to a maximum of 45 days. Employes are paid for accumulated annual leave upon termination or retirement.

Employes accumulate sick leave based on 5% of regular hours paid to a maximum of 200 days. Retiring employes that meet service, age or disability requirements are paid for 30% of their accumulated unused sick leave.

Accumulated annual and sick leave liability payable in subsequent fiscal years from Governmental Funds and Expendable Trust Funds are reported in the General Long-Term Obligations Account Group. Proprietary, Pension Trust, and College and University Funds accrue annual and sick leave in the fiscal year earned.

Pension Costs: The Commonwealth's policy is to fund pension costs incurred and to amortize prior service costs over varying periods not exceeding 30 years.

Encumbrances: Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded as a reserve of the applicable appropriation, is employed as an extension of formal budgetary integration in the Commonwealth's accounting system. Encumbrances outstanding at fiscal year end are reported as reservations of fund balance for subsequent year expenditures.

Reserves and Designations: Reserves represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure.

The amount reserved for advances in the General Fund is applicable to a demand loan to the State Stores Fund, an advance to the State Workmen's Insurance Fund, both Enterprise Funds, and an advance to the Motor License Fund, a Special Revenue Fund.

NOTE B—Summary of Significant Accounting Policies (continued)

Reserved retained earnings for Enterprise Funds (expressed in thousands) are provided principally for the retirement of debt relating to the Pennsylvania Turnpike Commission, $737,578, insurance claims relating to the State Workmen's Insurance Fund, $105,429, student loans relating to the Pennsylvania Higher Education Assistance Agency, $146,369, housing loans relating to the Pennsylvania Housing Finance Agency, $27,165 and other items, $2,265.

Designations of unreserved fund balances reflect managerial plans for the future use of financial resources. At June 30, 1989 the Commonwealth has included the following amounts as "Designated—Other" for the General Fund, Special Revenue Funds and Expendable Trust Funds (expressed in thousands):

General Fund:	
Employe disability claims	$ 85,855
Tort claims	9,068
	94,923
Tax stabilization	112,954
Continuing programs	111,956
Restricted revenue	65,806
Group medical and life insurance	57,525
Other	12,471
Total General Fund	$ 455,635
Special Revenue Funds:	
Economic development	$ 19,090
Land reclamation	12,283
Energy conservation and development	6,040
Solid waste grants	5,056
Other	881
Total Special Revenue Funds	$ 43,350
Expendable Trust Funds:	
Workmen's Compensation Security Trust Claims	$ 118,710
Other	517
Total Expendable Trust Funds	$ 119,227

Intergovernmental Revenues: These amounts represent revenues received principally from the Federal Government.

NOTE B—Summary of Significant Accounting Policies (continued)

Interfund Transactions: The Commonwealth has the following types of transactions among funds:

Statutory Transfers (Operating Transfers) — Legally required transfers that are reported when incurred as "Operating transfers in" by the recipient fund and as "Operating transfers out" by the disbursing fund.

Transfers of Expenditures (Reimbursements) — Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Residual Equity Transfers — Nonroutine or nonrecurring transfers between funds that are reported as additions to or deductions from the fund equity balance.

Interfund Payments (Quasi-external Transactions) — Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

The composition of the Commonwealth's interfund receivables and payables at June 30, 1989 is presented in Note H.

Totals—Memorandum Only: The "Totals (Memorandum Only)" columns represent an aggregation of the combined financial statement amounts of the fund types and account groups and are presented only for analytical purposes. These amounts are not comparable to a consolidation and do not represent the total resources available to or used by the Commonwealth.

NOTES TO FINANCIAL STATEMENTS

NOTE C—RESTATEMENTS AND FUND BALANCE/RETAINED EARNINGS DEFICIT

The July 1, 1988 retained earnings for the Purchasing Fund, an Internal Service Fund, has been restated due primarily to the inclusion of additional fixed assets and related accumulated depreciation previously excluded from the June 30, 1988 financial statements. The July 1, 1988 retained earnings has been increased by $2,875, from $5,279 to $8,154. The effect of this adjustment increases the combined retained earnings for all Internal Service Funds from $20,708, as previously reported at June 30, 1988, to $23,583 (amounts in thousands).

The July 1, 1988 current funds unrestricted fund balance for the State System of Higher Education, College and University Funds, has been restated to recognize additional compensated absence liabilities previously excluded from the June 30, 1988 financial statements. The July 1, 1988 current funds unrestricted fund balance has been decreased by $1,113, from $29,738 to $28,625 (amounts in thousands).

The Catastrophic Loss Trust Fund, an Expendable Trust Fund, had a fund balance deficit of $24.7 million at June 30, 1989. Elimination of this deficit will result, in part, from additional revenue collected from future surcharges on motor vehicle violations.

The Pennsylvania Infrastructure Investment Authority (PENNVEST), an Enterprise Fund, had an unreserved retained earnings deficit of $1.8 million at June 30, 1989. Elimination of this deficit will result from future interest earned on loan repayments and investments.

At June 30, 1989 the Capital Facilities Fund, an individual fund included in the Capital Projects fund type, reported a deficit unreserved/undesignated fund balance of $64,223. This deficit is primarily caused by a fund balance reservation for encumbrances of $211,068. In total, the individual Capital Facilities Fund reported a fund balance of $146,845 at June 30, 1989. Total Capital Projects funds reported reservations for encumbrances of $211,674, designations for capital projects of $187,752 and a deficit unreserved/undesignated fund balance of $64,223, for a total combined fund balance of $335,203 at June 30, 1989 (amounts in thousands).

NOTES TO FINANCIAL STATEMENTS

NOTE D—DEPOSITS AND INVESTMENTS

Authority for Commonwealth deposits and investments: The deposit and investment policies of the Commonwealth's Treasury Department are governed by sections 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929, P.L. 343, No. 176, amended November 16, 1985). Commonwealth deposits must be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. Permissible investments include direct obligations of the U.S. Treasury and U.S. Government agencies with maturities not exceeding two years; commercial paper rated "Prime One" by Moody's Credit Service or the equivalent by Standard and Poor's or Fitch's Rating Service; certificates of deposit issued by Pennsylvania banks or savings and loan associations; repurchase agreements secured by U.S. Government obligations that are held by the Treasury Department at the Federal Reserve bank; banker's acceptances; and up to a maximum of 10% of the book value of a fund's assets in any investment (other than common stock) not otherwise specifically authorized. It is also permissible for the Treasury Department to participate in reverse repurchase agreements.

In some cases, deposit and investment policies of certain individual funds and component units are established by statutes other than the Fiscal Code; however, all deposits, investments and reverse repurchase agreements of Commonwealth component units are specifically authorized by law.

In accordance with applicable statutory authority, the State Employes' Retirement System and the Public School Employes' Retirement System, Pension Trust Funds, have invested in common and preferred stocks, corporate and foreign bonds and notes, mortgages and real estate during their fiscal years.

Deposits: The following summary presents the amount of Commonwealth deposits which are fully insured or collateralized with securities held by the Commonwealth or its agent in the Commonwealth's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Commonwealth's name (Category 2) and those deposits which are not collaterized or are collaterized by the pledging financial institution or the pledging institution's trust department or agent, but not in the Commonwealth's name (Category 3) at June 30, 1989 (expressed in thousands).

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Cash	$ 241,332	$ 30,793	$12,688	$ 284,813	$ 103,377
Cash with fiscal agents	1,531,597		51,829	1,583,426	1,559,167
Certificates of deposit	249,806	144,664		394,470	394,556

The above-listed $394,556 in certificates of deposit is reported as investments at June 30, 1989.

Investments: The Commonwealth categorizes investments according to the level of credit risk assumed by the Commonwealth. Category 1 includes investments that are insured, registered or held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Commonwealth's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the Commonwealth's name. Certain investments have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interests in mutual funds and in mortgage, real estate and venture capital pools. The following summary identifies the level of credit risk assumed by the Commonwealth and the total carrying amount and market value of Commonwealth investments at June 30, 1989 (expressed in thousands).

NOTE D—Deposits and Investments (continued)

	Carrying Amount				
	Category 1	Category 2	Category 3	Total	Market Value
Bankers' acceptances	$ 8,660	$	$	$ 8,660	$ 8,660
Commercial paper	2,076,159		164,147	2,240,306	2,372,356
Common and preferred stock	6,110,101		989	6,111,090	7,043,112
Corporate bonds and notes	2,979,474		93	2,979,567	2,989,138
Mortgage loans	1,445,910		23,002	1,468,912	1,479,973
Real estate	615,886			615,886	671,505
Repurchase agreements	1,450,383	736,465	30,775	2,217,623	2,217,623
U.S. Government obligations	1,682,186	434,395	179,032	2,295,613	2,321,240
U.S. Government agency obligations	4,943,424	47,976		4,991,400	5,079,628
Other	867,043	4,049	27,328	898,420	898,305
Totals	$22,179,226	$ 1,222,885	$ 425,366	$23,827,477	$25,081,540
Add invested amounts not susceptible to credit risk categorization:					
Investment in Treasury pool at December 31, 1988 for State Employes' Retirement System, Deferred Compensation Fund and State Workmen's Insurance Fund				818,704	818,704
Investment pools in which State Employes' Retirement System participates at December 31, 1988:					
Mortgage loans				555,187	555,187
Mutual funds				2,202,789	2,202,789
Real estate				566,432	566,432
Venture capital				82,479	82,479
Venture capital pool in which the Public School Employes' Retirement System participates at June 30, 1989				98,742	98,742
Investment agreement in which the Pennsylvania Higher Educational Facilities Authority participates at June 30, 1989				34,240	34,240
Investment agreement in which the Pennsylvania Housing Finance Agency participates at June 30, 1989				4,301	4,301
Investment agreements in which the Pennsylvania Higher Education Assistance Agency participate at June 30, 1989				361,349	361,310
Total Investments				$28,551,700	$29,805,724

In addition to the above listed carrying amount of $28,551,700, there are $394,556 of certificates of deposit which are reported as investments at June 30, 1989 but which have been treated as deposits for a determination of the level of credit risk associated with the certificates. The total investments reported on the balance sheet of $28,946,256 is reported as follows (expressed in thousands):

Temporary investments	$ 8,475,152
Long-term investments	20,471,104
Total investments	$28,946,256

The Pension Trust Funds own approximately 100 percent of the common and preferred stock, 87 percent of the corporate bonds and notes, 98 percent of mortgage loans and 100 percent of the real estate reported in the above summary. During the fiscal year ended June 30, 1989 the Treasury Department entered into reverse repurchase agreements, but none were outstanding at June 30, 1989. There were no violations of statutory authority or contractual provisions for investments during the year ended June 30, 1989.

NOTES TO FINANCIAL STATEMENTS

NOTE E—FIXED ASSETS

A summary of fixed assets by category at June 30, 1989 is as follows (expressed in thousands):

	Enterprise	Internal Service	Pension Trust	General Fixed Assets Account Group	College and University
Land	$ 47,254	$ 6	$	$ 205,711	$ 2,013
Buildings	55,620	2,487		2,009,350	79,889
Improvements other than buildings	1,116,342	186		146,731	9,852
Furniture, machinery and equipment	121,977	38,724	7,688	430,790	236,300
Construction in progress	112,543			40,281	8,585
Total	$1,453,736	$ 41,403	$ 7,688	$ 2,832,863	$ 336,639

Changes in general fixed assets for the fiscal year ended June 30, 1989 are as follows (expressed in thousands):

	Balance July 1, 1988	Additions	Retirements	Balance June 30, 1989
Land	$ 201,107	$ 4,696	$ -92	$ 205,711
Buildings	1,923,507	88,702	2,859	2,009,350
Improvements other than buildings	138,236	8,757	262	146,731
Furniture, machinery and equipment	380,973	59,588	9,771	430,790
	2,643,823	161,743	12,984	2,792,582
Construction in progress	124,642	10,710	95,071	40,281
Totals	$2,768,465	$ 172,453	$ 108,055	$2,832,863

Interest costs of $2.2 million were capitalized for the Enterprise Funds for the fiscal year ended June 30, 1989.

The Commonwealth's initial valuation of general fixed assets was made as of June 30, 1986 using appraisal and historical cost reconstruction techniques. Subsequent to June 30, 1986 general fixed asset acquisitions are valued at cost. At June 30, 1989 the amount of general fixed assets related to the initial valuation amounts to $2,158 million.

Construction in progress included in the General Fixed Assets Account Group at June 30, 1989 is composed of the following (expressed in thousands):

Project	Project Authorization	Expended Through June 30, 1988	Authorization Available
Capitol Complex Buildings	$ 91,315	$ 3,242	$ 88,073
Department of Corrections Institutions	79,854	13,408	66,446
Colleges and Universities	64,106	12,352	51,754
Department of Public Welfare Institutions	36,660	2,947	33,713
Other	43,569	8,332	35,237
Total	$ 315,504	$ 40,281	$ 275,223

NOTE F—DUE FROM OTHER GOVERNMENTS

This receivable represents amounts due primarily from the Federal Government for various departmental programs.

NOTES TO FINANCIAL STATEMENTS

NOTE G — TAXES, LOANS AND LEASE RENTAL RECEIVABLES

Taxes Receivable: Taxes receivable at June 30, 1989 consisted of the following (expressed in thousands):

	General	Special Revenue	Trust and Agency	Total
Sales and use	$ 358,389	$	$	$ 358,389
Unemployment compensation	....	....	283,300	283,300
Personal income	96,295	....	....	96,295
Liquid fuels	....	87,752	3,754	91,506
Corporation	57,806	....	....	57,806
Other	13,093	51,101	....	64,194
	$ 525,583	$ 138,853	$ 287,054	$ 951,490

Loans Receivable: Loans receivable at June 30, 1989 consisted of the following (expressed in thousands):

	Special Revenue	Enterprise	College and University	Total
Mortgage loan program	$	$1,384,728	$	$1,384,728
Business development loan program	10,752	486,895	....	497,647
Student loan program	....	878,845	22,927	901,772
Municipal water system loan program	61,583	28,659	....	90,242
Nursing home loan program	33,221	....	....	33,221
Other loan programs	3,422	40,226	....	43,648
	108,978	2,819,353	22,927	2,951,258
Less: Allowance for uncollectible accounts	1,279	58,558	3,536	63,373
Loans receivable, net	$ 107,699	$2,760,795	$ 19,391	$2,887,885

Lease Rentals Receivable: The Pennsylvania Higher Educational Facilities Authority and State Public School Building Authority finance construction projects for educational institutions through the issuance of bonds and other obligations, the principal and interest of which are paid through the collection of lease rental payments related to the projects. The General State Authority and the Capital Facilities Fund, Capital Projects Funds, also finance construction projects for educational institutions through the issuance of General Obligation Bonds, the principal and interest of which are paid through the collection of lease rental payments and deposited in their related debt service funds. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. Lease rental receivables and associated deferred revenue equal to the principal lease payments to be received are recorded in the Special Revenue and Debt Service Funds relating to these arrangements. The total minimum lease payments to be received was $2,892 million and the present value of the lease payments was $1,246 million at June 30, 1989, the difference representing interest of $1,646 million. Minimum lease payments for the five fiscal years succeeding June 30, 1989 are as follows (expressed in millions):

Fiscal Year Ending June 30	Amount
1990	$134
1991	161
1992	154
1993	150
1994	150

NOTE H—INTERFUND ACCOUNTS/OPERATING TRANSFERS/RESIDUAL EQUITY TRANSFERS

The amounts shown as interfund accounts for the State Employes' Retirement System, a Pension Trust Fund, and the Deferred Compensation Fund, an Agency Fund, are as of their fiscal year end of December 31, 1988. The amounts shown for the State Workmen's Insurance Fund and Pennsylvania Turnpike Commission, Enterprise Funds, are as of their respective fiscal year ends of December 31, 1988 and May 31, 1989. The following presents a reconciliation of interfund accounts at June 30, 1989 (expressed in thousands):

Due from other funds - combined balance sheet at June 30, 1989	$353,247
State Workmen's Insurance Fund decrease in receivables from January 1, 1989 through June 30, 1989	(64)
State Employes' Retirement System increase in receivables from January 1, 1989 through June 30, 1989	16,228
DUE FROM OTHER FUNDS AT JUNE 30, 1989	$369,411
Due to other funds - combined balance sheet at June 30, 1989	$368,660
Deferred Compensation Fund increase in payables from January 1, 1989 through June 30, 1989	38
State Employes' Retirement System increase in payables from January 1, 1989 through June 30, 1989	259
State Workmen's Insurance Fund increase in payables from January 1, 1989 through June 30, 1989	121
Pennsylvania Turnpike Commission increase in payables from June 1, 1989 through June 30, 1989	333
DUE TO OTHER FUNDS AT JUNE 30, 1989	$369,411

NOTE H—Interfund Accounts/Operating Transfers/Residual Equity Transfers (continued)

A summary of interfund receivables and payables at June 30, 1989 is as follows (expressed in thousands):

FUND TYPE/FUND	DUE FROM	DUE TO
General	$ 36,607	$222,792
Special Revenue:		
State Lottery Fund	. . . .	5,113
Water Facilities Loan Fund	. . . .	3,992
Hazardous Sites Clean-up Fund	9,873	394
Motor License Fund	8,541	22,268
Fish and Game Fund	2,160	956
Other Funds	599	7,316
	21,173	40,039
Debt Service	1,013	1
Capital Projects:		
Capital Facilities Fund	436	7,014
Other Funds	. . . .	119
	436	7,133
Enterprise:		
State Stores Fund	. . . .	15,605
Pennsylvania Infrastructure Investment Authority	3,367	46
Other Funds	521	3,711
	3,888	19,362
Internal Service:		
Purchasing Fund	2,244	169
Manufacturing Fund	8,452	7,943
	10,696	8,112
Expendable Trust:		
Unemployment Compensation Fund	1,463	. . . .
Other Funds	1	15
	1,464	15
Pension Trust:		
State Employes' Retirement System	106,580	664
Public School Employes' Retirement System	129,931	3,097
	236,511	3,761
Agency	396	648
College and University	57,227	67,548
TOTAL	$369,411	$369,411

Total operating transfers are for the year ended June 30, 1989, except for the State Employes' Retirement System (SERS), a Pension Trust Fund, and the State Workmen's Insurance Fund (SWIF), an Enterprise Fund, whose transfers are for their year ended December 31, 1988. The reconciling amount of net transfers for SERS during the period January 1, 1988 to June 30, 1988 and January 1, 1989 to June 30, 1989 amounted to approximately $.4 million. The reconciling amount of $25 million for a SWIF transfer occurred during June, 1989.

The Enterprise Funds received $64.5 million in residual equity transfers and $45 million in general obligation bond proceeds that were reported as contributed capital for the fiscal year ended June 30, 1989.

NOTES TO FINANCIAL STATEMENTS

NOTE I—PENSION SYSTEMS AND OBLIGATIONS

The Commonwealth has contributory defined benefit pension plans covering substantially all state employes, public school employes and employes of certain other state-related organizations. State employes and employes of state-related organizations are members of the State Employes' Retirement System (SERS). Public school employes are members of the Public School Employes' Retirement System (PSERS).

The SERS follows the accounting and reporting requirements of the Financial Accounting Standards Board's (FASB) Statement 35 and the PSERS follows the National Council on Governmental Accounting's Statement 1. Both the SERS and the PSERS currently follow the disclosure requirements of the Governmental Accounting Standards Board's (GASB) Statement 5, "Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers". FASB Statement 35 provides authoritative guidance on accounting and financial reporting for defined benefit public employe retirement systems and GASB Statement 5 provides disclosure guidance. The following summaries present disclosure requirements for both the SERS and the PSERS for their fiscal years ended December 31, 1988 and June 30, 1989, respectively.

Since the SERS reports under the provisions of FASB Statement 35, a statement of changes in financial position is not presented for the SERS. Also, a statement of changes in net assets available for benefits has not been presented separately. Financial information which would have been presented in such statement is included in the Combined Statement of Revenues, Expenses and Changes in Fund Balances for Pension Trust Funds.

STATE EMPLOYES' RETIREMENT SYSTEM

Plan Description: The State Employes' Retirement System (System) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Pennsylvania (Commonwealth) to provide pension benefits for employes of state government and certain independent agencies. At December 31, 1988 there were 110 participating state and independent agencies. For the year ended December 31, 1988 the System's covered payroll was $2,779 million. For the same period, the covered payroll for agencies included in the Commonwealth's financial reporting entity was $2,437 million, or 94 percent of total payroll of $2,598 million for the Commonwealth's financial reporting entity.

Membership in the System is mandatory for most state employes, members and employes of the legislature and certain elected persons in the executive branch. Certain other employes are not required but are given the option to participate. At December 31, 1988 the System membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employes entitled to benefits but not yet receiving benefits	74,559
Current employes:	
Vested	65,789
Nonvested	43,822
Total members	184,170

The System provides retirement, death, and disability benefits. Retirement benefits vest after 10 years of credited service. Employes who retire at age 60 or, if under age 60 with 35 years of service, are entitled to an unreduced annual retirement benefit. Members of the legislature and certain law enforcement officers can retire with full benefits at age 50.

The general annual benefit is 2 percent of the member's high-three year average salary times years of service. Members of the legislature who were members of the System before March 1, 1974 are entitled to a benefit of 7.5 percent of average salary for each year of legislative service. Judges who were members of the System before March 1, 1974 are entitled to a benefit of 3 to 4 percent of average salary for each year of judicial service.

Covered employes are required by statute to contribute to the System at a rate of 5 percent of their gross pay except for employes hired on or after July 22, 1983 who contribute at a rate of 6.25 percent of their gross pay. Increased contributions are required of the previously noted legislators and judges (18.75 percent and 7.5 to 10 percent of gross pay, respectively) who are entitled to increased benefits. The contributions are recorded in an individually identified account which is also credited with interest, calculated quarterly to yield 4 percent per annum, as mandated by statute. Accumulated employe contributions and credited interest, which amounted to $1,602 million as of December 31, 1988, vest immediately and are returned upon termination of service if the employe is not eligible for other benefits.

NOTE I—Pension Systems and Obligations (continued)

Participating agency contributions are also mandated by statute and are based upon an actuarially determined percentage of gross pay that is necessary to provide the System with assets sufficient to meet the benefits to be paid to System members. According to the retirement code, all obligations of the System will be assumed by the Commonwealth should the System terminate.

At December 31, 1988 the System owned 23,679,726 units of the Wells Fargo Bank Equity Index Fund and 35,775,781 units of Wells Fargo Asset Allocation Fund, with respective carrying amounts of $1,239 million and $626.6 million. The Bank Equity Index Fund represents 15 percent and the Asset Allocation Fund represents 7.5 percent of System assets at December 31, 1988. The System owned no securities issued by the Commonwealth or related parties and made no loans to the Commonwealth or related parties during the year ended December 31, 1988.

Funding Status and Progress: The amount shown as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employe service to date. The measure is the actuarial present value of credited projected benefits and is intended, on an ongoing basis, to facilitate the assessment of System funding status and progress made in accumulating sufficient assets to pay benefits when due and to allow for appropriate comparisons of this data among public employe retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the System as discussed below.

The pension benefit obligation was determined as part of an actuarial valuation at December 31, 1988. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.75 percent per year compounded annually, (b) projected salary increases of 4 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 2.2 percent per year, attributable to merit/promotion, and (d) no postretirement benefit increases.

Net assets in excess of the pension benefit obligation at December 31, 1988 totalled $54.6 million as calculated below (expressed in thousands):

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employes entitled to benefits but not yet receiving benefits	$3,330,537
Current employes:	
Accumulated employe contributions including allocated investment income	1,602,386
Employer-financed vested	3,004,531
Employer-financed nonvested	319,760
Total pension benefit obligation	8,257,214
Net assets available for benefits (at market value)	8,311,830
Net assets in excess of the pension benefit obligation	$ 54,616

Contributions: The System funding policy provides for periodic member contributions at statutory rates and employer contributions at actuarially determined rates (expressed as a percentage of annual gross pay) that are sufficient to accumulate assets to pay benefits when due. All required 1988 contributions were made.

NOTE I—Pension Systems and Obligations (continued)

Employer contribution rates are determined using the entry age normal actuarial cost method, with amortization of the unfunded actuarial liability ($2,012 million) and of the supplemental annuities arising from cost of living and other adjustments over varying periods ending June 30, 2004. These rates are computed on a Commonwealth fiscal year basis such that employer contribution rates in effect for the System for 1988 reflect a blended average of those in effect through June 30, 1988 and subsequent to that date, as calculated based upon actuarial valuations prepared as of December 31, 1986 and December 31, 1987, respectively. The actuarially determined contribution requirement for the year ended December 31, 1988 consisted of (amounts in thousands):

	% of Current Covered Payroll	Amount
Employer normal cost	4.59	$127,550
Amortization of unfunded actuarial accrued liability	6.87	190,908
Amortization of supplemental annuities	1.63	45,296
Total contribution requirement	13.09	$363,754

Member contributions amounted to $153 million, or 5.5 percent and employer contributions amounted to $382 million, or 13.8 percent, of total actual covered payroll of $2,779 million, for the year ended December 31, 1988. Total employer contributions of $382 million exceeded the above actuarially determined contribution requirement of $364 million due to employer contributions related to employe purchases of prior service cost and employer contibutions related to the transfer of prior employe service from the Public School Employes' Retirement System to this System. Employer contributions amounted to $410 million for the fiscal year ended June 30, 1989, of which $348 million relates to agencies included in the Commonwealth's financial reporting entity. The Commonwealth employer contributions of $348 million approximate 85 percent of total employer contributions of $410 million.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation as described above, except for an assumed rate of return on investments of 5.5 percent per annum and certain revisions to salary increase assumptions.

THREE-YEAR HISTORICAL TREND INFORMATION

	Year Ended December 31		
	1986	**1987**	**1988**
Net assets available for benefits as a percentage of the pension benefit obligation applicable to covered employes	101.9%	99.8%	100.7%
Unfunded (assets in excess of) pension benefit obligation as a percentage of the System's annual covered payroll	(5.4)	.6	(2.0)
Employer contributions to the pension plan as a percentage of annual covered payroll	16.2	13.8	13.8

All required contributions were made, in accordance with actuarially determined requirements, for each of the three years ended December 31, 1986, 1987 and 1988.

Ten-year historical trend information is available in separate financial reports issued by the System. These separately issued reports include information about progress made in accumulating sufficient assets to pay benefits when due.

NOTE I—Pension Systems and Obligations (continued)

The following information is presented in accordance with the reporting requirements of FASB Statement 35.

The calculation of actuarial liabilities under GASB Statement 5 (the pension benefit obligation presented above) differs principally by the consideration of future salary increases from the calculation required under FASB Statement 35 of the actuarial present value of accumulated plan benefits presented below.

The accumulated plan benefit information as of December 31, 1988 is as follows (expressed in thousands):

Actuarial present value of accumulated plan benefits:	
Vested benefits:	
Participants currently receiving payments	$3,685,141
Other participants	3,523,943
	7,209,084
Nonvested benefits	240,864
Total	$7,449,948

Changes in accumulated plan benefits as of December 31, 1988 are as follows (expressed in thousands):

Actuarial present value of accumulated plan benefits at December 31, 1987	$6,754,259
Changes during the year attributable to:	
Passage of time	481,210
Plan provision changes	214,479
Net increase	695,689
Actuarial present value of accumulated plan benefits at December 31, 1988	$7,449,948

The significant actuarial assumptions used in the valuations of the actuarial present value of accumulated plan benefits as of December 31, 1988 are as follows:

Mortality	Superannuation (normal retirement) and early retirement: The 1971 Group Annuity Mortality Table
Disability	Modifications of the 1965 Railroad Retirement Board Mortality among Totally Disabled Annuitants
Assumed rate of return on investments	7.75%

PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM

Plan Description: The Commonwealth of Pennsylvania Public School Employes' Retirement System (System) was established July 18, 1917 under the provision of P.L. 1043, No. 343. The System is a cost-sharing multiple-employer plan and its designated purpose is to provide retirement allowances and other benefits, including disability and death benefits, to members. As defined by GASB Statement 5, the Commonwealth is a non-employer contributor to the System.

Membership in the System is mandatory for substantially all full-time public school employes in the Commonwealth. At June 30, 1989 there were 634 reporting units, generally school districts, and membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employes entitled to benefits, but not yet receiving benefits	121,000
Current employes:	
Vested	122,000
Nonvested	74,000
Total members	317,000

NOTE I—Pension Systems and Obligations (continued)

During the fiscal year ended June 30, 1988, the most recent year for which actual amounts are available, the covered payroll for public school employes was $4,642 million. Total payroll for public school employes was substantially the same.

Benefit provisions are established under Act 96 of 1975. After completion of ten years of service, a member's rights to the defined benefit is vested and early retirement benefits may be elected. Members are eligible for full monthly retirement benefits upon reaching (a) age 62; (b) age 60 and 30 or more years of service; or (c) 35 or more years of service. Act 91, enacted for a period of one year from July 1, 1986 to June 30, 1987 (and extended through September 30, 1991 by Act 69 and Act 112), permits school employes with at least 30 years of credited service to retire without a reduction in benefits. This law does not require a minimum age in conjunction with length of service to be eligible for full benefits. During the fiscal year ended June 30, 1989 there were no changes in benefit provisions.

Funding Status and Progress: The amount shown as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employe service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employe retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the System.

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1988, the most recent actuarial report. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 5.50 percent per year compounded annually, (b) projected salary increases ranging from 6.9? percent per year at age 25 to 1.89 percent per year at age 69, and (c) no postretirement benefit increases. The actuarial valuation does not include separate projected salary increases related to either inflation or seniority/merit increases.

At June 30, 1988 the unfunded pension benefit obligation was $5,652 million as follows (expressed in thousands):

Pension benefit obligation:	
Annuitants and survivor annuitants currently receiving benefits, and terminated members not yet receiving benefits	$ 6,543,891
Current members:	
Accumulated member contributions with interest	2,739,231
System-financed vested	5,072,862
System-financed nonvested	3,730,496
Total pension benefit obligation	18,086,480
Net assets available for benefits, at cost (market value is $12,938,600)	12,434,543
Unfunded pension benefit obligation	$ 5,651,937

Ten-year historical trend information is available in separate financial reports issued by the System. These separately issued reports include information about progress made in accumulating sufficient assets to pay benefits when due.

NOTE I—Pension Systems and Obligations (continued)

Contributions: The contribution policy is set by Act 96 and requires contributions by active members, employers and the Commonwealth. The rate of contribution for most active members is set by law at 5.25 percent of the member's compensation. For members joining the system on or after July 22, 1983 the rate of contribution is 6.25 percent. The contributions required of employers and the Commonwealth are based upon an actuarial valuation, using the "entry age normal" method, computed as a percentage of the total compensation of all active members during the period for which the amount is determined. The combined amounts required from the employers and Commonwealth were 19.27 percent of active member payroll for the year ended June 30, 1988 and consisted of (amounts in thousands):

	% of Current Covered Payroll	Amount
Employer normal cost	8.63	$443,148
Amortization of unfunded actuarial accrued liability	7.36	377,935
Amortization of supplemental annuities	3.28	168,427
Total contribution requirement	19.27	$989,510

The employer and the Commonwealth share such cost equally and all required contributions were made. For the fiscal year ended June 30, 1989 Commonwealth school districts contributed $499 million and the Commonwealth contributed $490 million to the System. The difference between these two amounts results from timing differences in cash payments to the System. The Commonwealth contribution approximates 10 percent of current covered payroll. Employe contributions of $276 million approximate 5.9 percent of covered payroll of $4,642 million for the year ended June 30, 1988, the most recent year for which actual amounts are available. At June 30, 1988 the unfunded actuarial liability is $7,067 million and the average funding period to amortize this liability is 18 years.

For the actuarial valuation at June 30, 1988 there were no changes in the actuarial funding method or other significant factors in calculating employe contributions. The employer contribution requirement has been affected by (a) an extension of the current early retirement window program from June 30, 1989 to September 30, 1991 and (b) an additional monthly supplemental annuity (a cost of living adjustment) commencing in January 1989 for certain benefit recipients. There were no changes in actuarial assumptions which affected the pension benefit obligation or the unfunded actuarial liability at June 30, 1988.

During the fiscal year ended June 30, 1989 the PSERS owned no securities issued by school districts, the Commonwealth or any related parties and made no loans to school districts, the Commonwealth or any related party.

Postretirement Health Care Benefits: In addition to providing pension benefits, the Commonwealth provides certain health care benefits for retired employes that meet specified length-of-service and age requirements. These benefits are provided through insurance companies whose premiums are based on the benefits paid during the fiscal year. The Commonwealth recognizes the cost of providing these benefits as paid, which totalled $75.7 million for the fiscal year ended June 30, 1989.

NOTE J—NOTES AND DEMAND REVENUE BONDS PAYABLE

The Pennsylvania Housing Finance Agency (PHFA), an Enterprise Fund, maintains a line of credit agreement with the Pennsylvania Treasury Department. Under the agreement, which has not been used as of June 30, 1989, PHFA may borrow up to $20 million. At the time funds are drawn, interest rates are fixed at 2 points below the current prime rate as listed by Morgan Guaranty Bank of New York. These funds may be used for any and all purposes for which PHFA is lawfully established. As of June 30, 1989 PHFA had notes payable outstanding of $15 million bearing interest rates ranging from 7 to 9.5 percent for 1989.

The Pennsylvania Higher Education Assistance Agency (PHEAA), an Enterprise Fund, has $435 million of demand revenue bonds outstanding and $374.5 million of notes payable at June 30, 1989. Demand revenue bonds at June 30, 1989 consist of the following (expressed in thousands):

	Student Loan Adjustable Rate Tender Revenue Bonds 1988 Series D	Student Loan Adjustable Rate Tender Revenue Bonds 1988 Series B	Student Loan Adjustable Rate Tender Revenue Bonds 1988 Series A	Student Loan Adjustable Rate Tender Revenue Bonds 1986 Series A	Student Loan Revenue Bonds 1984 Series A
Amount issued	$75,000	$110,000	$100,000	$50,000	$100,000
Date of issue	12/23/88	7/29/88	1/28/88	12/15/86	7/19/84
Interest rate	6.75%	6.75%	6.75%	5.5%	6.5%
Due date	1/1/19	7/1/18	1/1/18	10/1/16	12/1/00
Letter of credit:					
Principal amount	$81,562	$119,625	$106,904	$53,500	$103,082
Expiration date	12/31/93	7/31/93	1/31/93	12/31/91	12/15/00

The 1988 bonds bear interest at an adjustable rate determined by PHEAA's remarketing agent based upon prevailing market conditions and is reset weekly. The 1986 bonds bear interest at a rate of 5.5 percent through October 1, 1989, after which they will bear interest at an adjustable rate determined by PHEAA and its remarketing agent. The 1984 bonds bear interest at a fluctuating rate based on the remarketing rate of the J.J. Kenny Index and is also reset weekly. All bonds are subject to purchase, at par plus accrued interest, by PHEAA on the demand of the bondholders upon seven days prior irrevocable written notice. None of the letters of credit pertaining to PHEAA's demand revenue bonds outstanding have been used as of June 30, 1989.

Notes payable for PHEAA at June 30,1989 consist of the following (expressed in thousands):

Term loan, interest at the Euro-Rate plus .7% (10.39% at June 30, 1989), secured as a general obligation of PHEAA, due January 1990	$ 39,497
Note payable, interest at London Interbank offered rate plus .23% (9.67% at June 30, 1989), security interest in student loans equal to the outstanding principal, due September 30, 1990	335,000
Total	$ 374,497

NOTE J—Notes and Demand Revenue Bonds Payable (continued)

Under the terms of the trust agreement for the $335 million note payable, cash in the amount of $790 thousand and investments in the amount of $1.3 million are restricted for the purpose of either the issuance or purchase of loans, or the repayment of debt.

During the fiscal year ended June 30, 1989 the Commonwealth issued $500 million of tax anticipation notes and $199 million in commercial paper which matured on June 30, 1989. The $24.8 million of interest related to the notes and commercial paper is shown as a debt service expenditure in the General Fund. Also, in May, 1989 the Commonwealth issued $67 million of bond anticipation notes which mature on September 15, 1989.

The State System of Higher Education, College and University Funds, has $4.6 million of notes payable as of June 30, 1989 that are collateralized by an equivalent amount of equipment. The notes bear interest at rates ranging from 5 percent to 9.3 percent and mature in varying amounts through 1997. The scheduled principal payments for the notes outstanding at June 30, 1989 follow (expressed in thousands):

1990	$1,427
1991	453
1992	396
1993	325
Thereafter	2,011
Total	$4,612

NOTES TO FINANCIAL STATEMENTS

NOTE K—LONG-TERM OBLIGATIONS

Long-term obligations of the Commonwealth at June 30, 1989 (May 31, 1989 for the Pennsylvania Turnpike Commission) and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 1988	Additions	Reductions	Balance June 30, 1989
ENTERPRISE FUNDS								
Revenue Bonds Payable From User Charges:								
Pennsylvania Higher Education Assistance Agency	1985-88	6.37- 8.01%	2018	$	$ 252,000	$ 111,000	$ 50,000	$ 313,000
Pennsylvania Housing Finance Agency	1976-89	3.60-14.50%	2028		1,668,842	502,910	294,226	1,877,526
Pennsylvania Industrial Development Authority	1975-84	4.90-12.50%	2004		111,765		8,505	103,260
Pennsylvania Turnpike Commission	1986-89	5.50- 7.87%	2019		804,380	450,870	186,070	1,069,180
					2,836,987	1,064,780	538,801	3,362,966
Less: Bond discounts					81,627	34,181	4,012	111,796
TOTAL ENTERPRISE FUNDS				$	$2,755,360	$1,030,599	$ 534,789	$3,251,170
GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP								
General Obligation Bonds Payable From Tax Revenues:								
Capital Facilities	1968-89	4.15-10.75%	2009	$8,902,672	$3,609,565	$ 343,500	$ 275,490	$3,677,575
Disaster Relief	1973-89	4.91- 8.56%	2009	21,908	100,725	2,800	6,610	96,915
Land and Water Development	1969-89	5.13-10.75%	2009	18,300	296,910	4,700	19,810	281,800
Nursing Home Loan Development	1975-86	5.30- 8.89%	2006	31,000	44,510		3,720	40,790
Project 70 Land Acquisition	1970	6.26%	2000		6,540		365	6,175
Volunteer Companies Loan	1977-83	5.32-10.75%	2002		17,565		1,320	16,245
Vietnam Conflict Veterans Compensation	1969-74	5.36- 6.11%	2003	3,000	37,765		2,350	35,415
Water Facilities Loan	1983-89	6.91- 9.83%	2008		111,095		6,945	104,150
Pennsylvania Economic Revitalization	1984-85	7.69- 8.86%	2004	117,000	47,710		8,200	39,510
General State Authority	1961-68	3.20- 4.70%	1997		146,228		146,228	
State Highway and Bridge Authority	1966-68	2.75- 4.60%	1991		59,490		22,825	36,665
State Public School Building Authority	1968	5.06%	1988		375		375	
Pennsylvania Infrastructure Investment Authority	1988-89	6.74- 6.96%	2009	441,000		25,000		25,000
Agricultural Conservation Easement Purchase				100,000				
Refunding Bonds	1985-88	6.70- 7.85%	2003		220,167	127,615	2,820	344,962
				9,634,880	4,698,645	503,615	497,058	4,705,202
Revenue Bonds Payable From Lease Rentals:								
Pennsylvania Higher Educational Facilities Authority	1969-89	5.50- 9.00%	2025		1,053,792	149,865	83,797	1,119,860
State Public School Building Authority	1986-89	5.58- 8.91%	2024		237,390	73,740	37,749	273,381
					1,291,182	223,605	121,546	1,393,241
Other General Long-Term Obligations Payable From Tax Revenues:								
Capital Lease and Installment Purchase Obligations					162,258	34,207	17,653	178,812
Self-Insurance — Note O					456,294	66,100	51,966	470,428
Single Excise Tax Refunds — Note P						627,000		627,000
Compensated Absences					219,452	214,551	187,545	246,458
Catastrophic Motor Vehicle Losses					270,334	113,346	62,703	320,977
Other					299,629	544,252	308,898	534,983
					1,407,967	1,599,456	628,765	2,378,658
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP				$9,634,880	$7,397,794	$2,326,676	$1,247,369	$8,477,101

NOTE K—Long-Term Obligations (continued)

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Industrial Development Authority, and the Pennsylvania Turnpike Commission (PTC), Enterprise Funds, have pledged all of their revenues for the redemption of revenue bonds outstanding. Revenue bonds outstanding as reported in this note disclosure for the fiscal year ended June 30, 1989 (May 31, 1989 for the PTC) include bond discounts of $111.8 million.

On September 26, 1985, PHEAA issued Student Loan Adjustable Rate Tender Revenue Bonds, 1985 Series A (1985 Bonds) in the amount of $202 million. The 1985 Bonds bear interest at a rate of 6.375 percent through June 1, 1991. After that date, the bonds will bear interest at an adjustable rate as determined by PHEAA and its remarketing agent based upon prevailing market conditions, and are subject to purchase at par plus accrued interest, by PHEAA on the demand of the bondholders upon seven days prior irrevocable written notice. On July 29, 1988 and December 30, 1988 PHEAA issued Student Loan Adjustable Rate Tender Revenue Bonds, 1988 Series C and E in the amounts of $75 million and $36 million, respectively. Interest on the 1988 Series C and E bonds is set by the remarketing agent weekly and was 6.71 percent and 8.01 percent, respectively, at June 30, 1989. The Series C and E bonds are private placements in which the holder may terminate its agreement to hold the bonds as of August 1, 1998 and January 1, 1999, respectively. PHEAA may call a mandatory tender each year, on any date from August 1 to November 1 for Series C, and from January 1 to April 1 of each alternating calendar year for Series E. If the bonds are tendered before maturity date, they will be remarketed by the remarketing agent.

The Commonwealth has pledged its full faith and credit for the payment of principal and interest on general obligation bonds accounted for in the General Long-Term Obligations Account Group.

The Pennsylvania Higher Educational Facilities Authority and the State Public School Building Authority have revenue bonds outstanding, reported as General Long-Term Obligations, as of June 30, 1989, which are payable from the lease rentals of the projects financed. The lease rentals are pledged as collateral for the revenue bonds outstanding.

The Commonwealth of Pennsylvania by enactment of the General Assembly created the Pennsylvania Energy Development Authority (PEDA) to finance projects related to energy conservation and research. Fees are assessed to recover related processing and application costs incurred. The bonds issued by the Authority represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers from the trustee to the entity served by the bond issuance. The PEDA has $166.7 million in revenue bonds outstanding at June 30, 1989. The Commonwealth has no obligation for this debt. Accordingly, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Commonwealth uses fiscal agents to process payments for the servicing of the majority of its bond issues. Additional cash with fiscal agents is held by the Federal Government for unemployment compensation claims.

Included in "Other" for Other General Long-Term Obligations payable from tax revenues are the following (expressed in thousands):

Litigation — Note P	$322,040
Public Utility Realty Tax Act (PURTA)	94,233
Workmen's Compensation Security Trust Claims	118,710
	$534,983

The PURTA provides for a tax on utility realty property which is available for appropriation as a general revenue source. The Act also provides for payment of a tax distribution to local taxing authorities. The Workmen's Compensation Security Trust Fund provides for payment of valid claims under the Workmen's Compensation Law to individuals whose employments are insured by insolvent insurance carriers. The long-term obligation for these claims is reported as a designation of unreserved fund balance in the Workmen's Compensation Security Trust Fund. Amounts included in the General Long-Term Obligations Account Group at June 30, 1989 relating to the PURTA, Workmen's Compensation Claims and Litigation are not payable with currently expendable available financial resources.

The constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was $22.2 billion as of August 31, 1989, with net debt outstanding of $4 billion.

NOTES TO FINANCIAL STATEMENTS

NOTE K —Long-Term Obligations (continued)

The following table presents annual principal and interest payments for long-term debt outstanding at June 30, 1989 (May 31, 1989 for the Pennsylvania Turnpike Commission) (expressed in thousands):

	1990	1991	1992	1993	1994	1995 Through Maturity	Total
ENTERPRISE FUNDS							
Revenue Bonds:							
Pennsylvania Higher Education Assistance Agency	$ 20,793	$ 20,794	$ 20,794	$ 20,793	$ 20,794	$ 627,915	$ 731,883
Pennsylvania Housing Finance Agency	368,200	159,692	159,438	159,769	159,653	3,610,433	4,617,185
Pennsylvania Industrial Development Authority	18,625	17,474	14,556	12,219	12,345	110,078	185,297
Pennsylvania Turnpike Commission	197,770	127,433	180,295	63,240	63,508	1,550,790	2,183,036
Total Principal and Interest	605,388	325,393	375,083	256,021	256,300	5,899,216	7,717,401
Less: Interest Payments	255,145	228,080	216,355	212,641	209,266	3,232,948	4,354,435
TOTAL ENTERPRISE FUNDS	$ 350,243	$ 97,313	$ 158,728	$ 43,380	$ 47,034	$2,666,268	$3,362,966
GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP							
General Obligation Bonds:							
Capital Facilities	$ 555,289	$ 531,858	$ 511,971	$ 468,625	$ 422,988	$2,754,573	$5,245,304
Disaster Relief	12,418	10,675	10,657	10,634	10,597	81,611	136,592
Land and Water Development	38,039	36,243	36,042	35,575	35,163	213,786	394,848
Nursing Home Loan Development	6,441	6,376	6,319	6,270	6,218	23,475	55,099
Project 70 Land Acquisition	764	763	770	770	768	4,680	8,515
Volunteer Companies Loan	2,578	2,509	2,436	2,366	2,292	11,620	23,801
Vietnam Conflict Veterans Compensation	4,562	4,558	4,560	4,559	4,562	25,419	48,220
Water Facilities Loan	15,197	14,694	14,180	13,653	13,111	106,563	177,398
Pennsylvania Economic Revitalization	10,623	8,430	7,983	7,169	4,653	12,262	51,120
State Highway and Bridge Authority	18,513	12,631	7,061				38,205
Pennsylvania Infrastructure Investment Authority	2,887	2,807	2,727	2,647	2,566	28,639	42,273
Refunding Bonds	54,815	58,686	55,869	52,836	44,544	216,850	483,600
Total Principal and Interest	722,126	690,230	660,575	605,104	547,462	3,479,478	6,704,975
Less: Interest Payments	288,431	261,763	231,860	207,244	180,824	829,651	1,999,773
	433,695	428,467	428,715	397,860	366,638	2,649,827	4,705,202
Revenue Bonds:							
Pennsylvania Higher Educational Facilities Authority	143,633	122,482	116,164	114,091	115,520	1,939,908	2,551,798
State Public School Building Authority	44,774	42,758	40,946	39,455	37,786	214,869	420,588
Total Principal and Interest	188,407	165,240	157,110	153,546	153,306	2,154,777	2,972,386
Less: Interest Payments	111,595	106,666	102,574	98,704	94,837	1,064,769	1,579,145
	76,812	58,574	54,536	54,842	58,469	1,090,008	1,393,241
TOTAL GENERAL OBLIGATION AND REVENUE BONDS	510,507	487,041	483,251	452,702	425,107	3,739,835	6,098,443
Other General Long-Term Obligations	801,038	70,507	65,800	64,026	63,015	1,314,272	2,378,658
TOTAL GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP	$1,311,545	$ 557,548	$ 549,051	$ 516,728	$ 488,122	$5,054,107	$8,477,101

NOTE K—Long-Term Obligations (continued)

The Commonwealth has entered into agreements to lease various facilities and equipment. Such agreements are in substance purchases (capital leases) and are reported as Other General Long-Term Obligations and Capital Lease Obligations for the College and University Funds.

The following is a schedule by fiscal year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 1989 (expressed in thousands):

	General Long-Term Obligations	College and University Funds
Fiscal year ending June 30:		
1990	$ 10,548	$ 10,552
1991	9,319	9,935
1992	8,697	8,548
1993	8,463	8,075
1994	8,329	11,120
Later years	173,712	26,810
Total minimum lease payments	219,068	75,040
Less: amount representing estimated executory costs included in total minimum lease payments	21,885	.....
Net minimum lease payments	197,183	75,040
Less: amount representing interest	88,789	22,460
Present value of net minimum lease payments	108,394	52,580
Installment purchase obligations	70,418	.....
TOTAL CAPITAL LEASE AND INSTALLMENT PURCHASE OBLIGATIONS	$178,812	$ 52,580

At June 30, 1989 general fixed assets included $97.9 million of buildings and $57 million of equipment under capital lease.

Capital lease obligations outstanding as of June 30, 1989 for the College and University Funds relate to various capital projects currently under construction for which a related public financing authority is the lessor. Revenue bonds were issued by the public financing authority to provide funding for these capital projects. College and University Funds fixed assets include $8.8 million of construction in progress related to capital leases at June 30, 1989.

NOTES TO FINANCIAL STATEMENTS

NOTE L—REFUNDED DEBT

On January 31, 1989 the Pennsylvania Higher Educational Facilities Authority (PHEFA) issued $38.3 million in Medical College of Pennsylvania Revenue Bonds, First Series of 1989 with an average interest rate of 7.965 percent to advance refund $31.9 million of outstanding Medical College of Pennsylvania Revenue Bonds, First Series of 1984 (the 1984 bonds) with an average interest rate of 10.875 percent. The net proceeds (including $256,023 of accrued interest) of $36.5 million (after payment of $1,555,213 of discount fees, deposit allocations of $256,023 to the Debt Service Fund and $182,547 to the Special Clearing Fund) plus an additional $1.8 million from funds available under the original indenture were deposited with an escrow agent to provide for all future debt service payments of the 1984 bonds. As a result, the 1984 bonds are considered to be defeased and the liability for those bonds has been removed from the General Long-Term Obligations Account Group. The PHEFA advance refunded the 1984 bonds to reduce its total debt service payments by $6 million and to obtain an economic gain of $4.2 million.

During the fiscal year ended June 30, 1989 the Commonwealth issued $127.6 million in General Obligation Bonds with an average interest rate of 6.4 percent to advance refund $146.2 million of outstanding General State Authority (GSA) bonds with an average interest rate of 3.9 percent. The net proceeds of $126.5 million (after payment of $1.1 million in underwriting fees, insurance, and other issuance costs) plus an additional $8.6 million in other available funds of the GSA and the Commonwealth were used to purchase U.S. government securities. Based on an escrow deposit agreement dated November 15,1988, these securities were deposited with Mellon Bank, N.A., Pittsburgh, Pennsylvania, (escrow agent) to provide for all future debt service payments on the GSA bonds. As a result, the GSA bonds are considered to be defeased and the liability for those bonds has been removed from the General Long-Term Obligations Account Group. The Commonwealth advance refunded the GSA bonds to reduce its total debt service payments over the next nine years by $3.6 million and to obtain an economic gain of $3.5 million. Although the interest rate associated with the refunding bonds is higher than the rate associated with the refunded debt, the new schedule of debt service payments provides for an accelerated payment of bond principal which, when compared to the schedule associated with the refunded debt, provides for both reduced total debt service payments and the economic gain.

Through June 30, 1989 the Commonwealth has defeased certain general obligation and other bonds by placing the proceeds of the new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, these assets and liabilities are not included in the Commonwealth's financial statements. At June 30, 1989 there are $1,016 million of bonds outstanding that have been defeased through advance refundings. Included are $341 million of general obligation bonds, $359 million and $316 million of revenue bonds for the State Public School Building Authority and PHEFA, Debt Service Funds, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE M—RECONCILIATION OF BUDGETARY AND GAAP BASIS AMOUNTS

The Commonwealth adopts formal annual budgets for the General and three Special Revenue Funds (Motor License, State Lottery and Workmen's Compensation Administration). In addition, the State Public School Building Authority approves a formal annual budget for its operations and is included as a Budgeted Special Revenue Fund.

The Combined Statement of Revenues, Expenditures, and Changes in Unreserved/Undesignated Fund Balances—Budget and Actual (Budgetary Basis)—presents comparisons of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from GAAP primarily by the omission of certain revenue and expenditure accruals.

The following presents a reconciliation of the budgetary basis to the GAAP basis of reporting (expressed in thousands):

	General Fund	Special Revenue Funds
BUDGETED FUNDS:		
Budgetary basis — revenues and other sources over (under) expenditures	$ 290,421	$ (49,888)
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue	(140,811)	1,086,727
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities	(902,590)	(1,295,090)
To adjust encumbrances	822,113	253,862
Net adjustments	(221,288)	45,499
NONBUDGETED FUNDS:		
GAAP basis — revenues and other sources under expenditures and other uses		(48,918)
TOTAL ALL FUNDS:		
GAAP basis — revenues and other sources over (under) expenditures and other uses	$ 69,133	$ (53,307)

NOTE N—SEGMENT INFORMATION—ENTERPRISE FUNDS

The Commonwealth has seven major Enterprise Funds which provide for a limited access highway system, industrial development loans, workmen's compensation insurance services, liquor sales, student loans and scholarships, low-cost housing and capital development loans.

Segment information for the fiscal year ended June 30, 1989, unless otherwise noted, was as follows (expressed in thousands):

	Pennsylvania Turnpike Commission (May 31, 1989)	Pennsylvania Industrial Development Authority	State Workmen's Insurance Fund (Dec. 31, 1988)	State Stores Fund (June 27, 1989)	Pennsylvania Higher Education Assistance Agency	Pennsylvania Housing Finance Agency	Pennsylvania Infrastructure Investment Authority	Other Enterprise Funds	Total Enterprise Funds
Operating revenues	$ 220,823	$ 29,477	$ 230,999	$ 612,358	$ 185,697	$ 182,535	$ 3,880	$ 28,009	$ 1,493,778
Depreciation	52,020	.....	791	2,149	3,992	233	1	5,448	64,634
Operating income (loss)	63,184	15,676	59,227	24,843	(121,758)	11,020	(1,808)	7,904	58,288
Operating transfers in	.....	.....	.....	.....	154,822	11,700	.....	.....	166,522
Operating transfers out	.....	.....	60,000	16,000	.....	.....	.....	.....	76,000
Net income (loss)	76,964	15,676	(1,990)	7,557	33,064	23,449	(1,808)	8,806	161,718
Capital contributions	.....	12,500	.....	.....	.....	.....	59,685	37,308	109,493
Fixed asset additions	91,402	.....	1,726	4,019	9,338	96	17	711	107,309
Net increase in cash and temporary investments	382,717	6,125	58,085	20,452	195,091	148,700	93,065	25,395	929,630
Total assets	1,872,276	578,169	1,062,001	160,979	1,384,130	2,223,854	130,810	236,426	7,648,645
Bonds and other long-term liabilities payable from operating revenues	1,028,531	99,091	663,527	.....	687,497	1,825,569	.....	.....	4,304,215
Total fund equity	784,303	473,895	376,759	12,324	193,510	247,739	125,244	232,787	2,446,561

NOTE O—SELF-INSURANCE

Effective July 1, 1983 the Commonwealth became self-insured for future losses for all statutory worker's compensation and medical payments to its employes injured on the job. A loss reserve analysis is prepared annually by an independent consulting actuarial firm using standard actuarial techniques to estimate required reserve liability levels.

The Commonwealth is self-insured for tort liability claims. Major tort self-insurance areas include automobile, general tort, employe and transportation-related liability claims. Tort liabilities were determined as of June 30, 1989 based on reserves computed from the Commonwealth's claim experience.

At June 30, 1989 the following amounts are reported as General Fund and Motor License Fund, a Special Revenue Fund, accrued liabilities representing the estimate of payments to be made from currently expendable available financial resources for accidents occurring on or before June 30, 1989 (expressed in thousands):

General Fund	
Employe disability	$ 35,000
Automobile	2,244
General tort	2,015
Employe	1,943
Total	$ 41,202
Motor License Fund	
Transportation-related	$ 20,298

The portion of Commonwealth self-insurance liabilities that will not be liquidated with currently expendable, available financial resources at June 30, 1989 is reported in the General Long-Term Obligations Account Group as follows (expressed in thousands):

Transportation-related	$216,125
Employe disability	191,303
General tort	31,328
Employe	26,698
Automobile	4,974
Total	$470,428

The following amounts are reported as designations in the General Fund at June 30, 1989 for future payments of self-insurance losses (expressed in thousands):

General Fund	
Employe disability	$ 85,855
Employe	3,501
General tort	3,820
Automobile	1,747
Total	$ 94,923

NOTES TO FINANCIAL STATEMENTS

NOTE P—COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 1989 the Department of Transportation and the Pennsylvania Turnpike Commission have contractual commitments of approximately $1.2 billion for various highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond sales. In addition, the Commonwealth has certain contractual commitments for future purchases of various goods and services approximating $1.3 billion at June 30, 1989. These commitments are contingent upon availability of financial resources.

At June 30, 1989, the Pennsylvania Industrial Development Authority had $190 million in approved loans that had not been disbursed.

Operating Lease Commitments: The Commonwealth has commitments to lease certain buildings and equipment. Future minimum rental commitments for noncancelable operating leases as of June 30, 1989 were as follows (expressed in thousands):

Fiscal year ending June 30:	
1990	$102,042
1991	77,348
1992	45,787
1993	36,640
1994	26,335
Later years	50,314
Total Minimum Lease Payments	$338,466

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 1989 amounted to $146.6 million.

Single Excise Tax Refunds: In response to the Supreme Court of Pennsylvania's February 1989 decision declaring the single excise tax unconstitutional, the Commonwealth decided to issue credits and refunds totalling $627 million to those banks not involved in the settlement. This amount has been recorded in the General Long-Term Obligations Account Group as of June 30, 1989. Additionally, $29 million has been recorded in the General Fund for those banks involved in the settlement.

Litigation: The Commonwealth, its affiliates and employes are defendants in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of Commonwealth and Federal laws. The Commonwealth has recorded accrued liabilities at June 30, 1989 with respect to torts as presented in Note O and as follows with respect to other matters of litigation for which the likelihood of an unfavorable outcome is probable (expressed in thousands):

General Fund	$ 3,086
Other General Long-Term Obligations	322,040

Additionally, the Commonwealth has been involved over the past several years in certain legal proceedings relative to highway tax matters which continue into the present year. The Commonwealth is vigorously contesting these cases but if unsuccessful the Commonwealth could be required to make settlements and refund certain highway taxes ranging from approximately $401 to $426 million (Motor License Fund). Other cases that the Commonwealth is currently vigorously contesting could range from approximately $174 to $279 million, $44 to $49 million and $12 million of additional liabilities, for the General Fund, Capital Projects Funds and Special Revenue Funds, respectively.

Based on the current status of all these legal proceedings for which accruals have not been made, it is the opinion of the Commonwealth's management and counsel that they will not have a material effect on the Commonwealth's financial position.

NOTE P—Commitments and Contingencies (continued)

Federal Grants: The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the general purpose financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs ranging from $24 to $94 million. The Commonwealth's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the general purpose financial statements.

Student Loan Guarantees: The Pennsylvania Higher Education Assistance Agency (PHEAA), an Enterprise Fund, guarantees loans made by private lenders to certain resident students. Total outstanding guarantees issued by PHEAA approximated $5.2 billion at June 30, 1989. The U.S. Department of Education reinsures losses under these guarantees up to 100 percent until losses are in excess of 5 or 9 percent of the total loans in repayment status, then the reinsurance rate decreases to 90 and 80 percent, respectively.

Other Contingency: The State Lottery Fund, a Special Revenue Fund, has entered into agreements with insurance companies under which the Lottery purchases annuities under group contracts which provide payments corresponding to the State Lottery Fund's obligation to prize winners. The Commonwealth would be liable for such future payments if the insurance companies would default on their payment. In the event of default, the Commonwealth would have to fund future prize payments amounting to $1.6 billion, discounted at an interest rate of 8.9 percent to a net present value of $817 million at June 30, 1989.

NOTES TO FINANCIAL STATEMENTS

NOTE Q—MEDICAL PROFESSIONAL LIABILITY CATASTROPHE LOSS FUND

The Medical Professional Liability Catastrophe Loss Fund, an Agency Fund, acts primarily as an agent to facilitate the payment of claims covering excess liability of health care providers practicing in the Commonwealth. The Fund levies surcharges to health care providers to pay settled claims and administrative expenses paid on behalf of health care providers during the prior year. The actuarially computed liability to the health care providers for claims outstanding at June 30, 1989 totals $1,754.1 million ($1,328.8 million at present value based on the expected payment pattern and an assumed long-term interest rate of 7 percent). At June 30, 1989 $142.2 million is payable with expendable available financial resources and is shown as a fund liability. The remaining claims are assessable to health care providers in future years as claims are settled and paid and, therefore, do not represent liabilities of the Commonwealth. The following is a summary of the increases and decreases of the Fund's assets for the year ended June 30, 1989 (expressed in thousands):

Fund assets, July 1, 1988	$158,793
Surcharges to health care providers	148,253
Investment earnings	13,911
Payments to claimants	(167,936)
Administrative costs	(7,489)
Fund assets, June 30, 1989	$145,532

NOTE R—DEFERRED COMPENSATION

The Commonwealth offers its employes a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is administered by the State Employes' Retirement System, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employes until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with the amounts, and all income attributable to these amounts are solely the property and rights of the Commonwealth, subject only to the claims of the Commonwealth's general creditors. Participants' rights under the plan are equal to those of general creditors of the Commonwealth in an amount equal to the fair market value of the deferred account of each participant. The Commonwealth has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Commonwealth believes it is unlikely that plan assets will be used to satisfy future claims of general creditors.

Of the $2,792 thousand in assets (at market value) reported in the Deferred Compensation Fund, an Agency Fund, at December 31, 1988, $2,782 thousand relates to participants employed by organizations included in the Commonwealth's financial reporting entity, with the remainder relating to participants employed by organizations not included in the Commonwealth's financial reporting entity.

NOTES TO FINANCIAL STATEMENTS

NOTE S—SUBSEQUENT EVENTS

On July 1, 1989 Act 21 of 1989 created a new bank shares tax which requires subject banks to retroactively measure their tax liability to the Commonwealth as of January 1, 1989 and which rescinds the prior statute under which $74 million of bank shares taxes had been paid to the Commonwealth in April 1989. On November 14, 1989 the constitutionality of this new law was challenged in Commonwealth Court. The Commonwealth intends to vigorously contest this case which represents a potential liability of $74 million as of June 30, 1989.

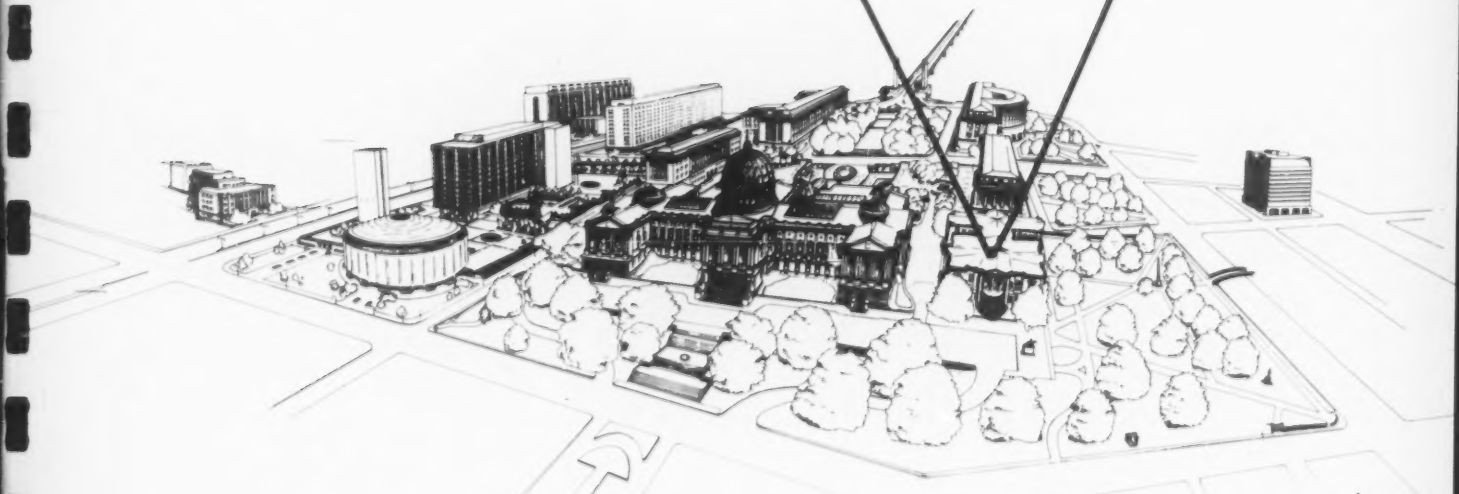
During October 1989 the Commonwealth issued $550 million of Tax Anticipation Notes, First Series of 1989-90. The notes are payable from and secured by the pledge of revenues to be received in the General Fund during the fiscal year ending June 30, 1990. This obligation is due and payable not later than June 30, 1990.

In late October 1989 a disturbance at the Camp Hill Correctional Institution resulted in the destruction of fixed assets and inventories which are reported in the Manufacturing Fund, an Internal Service Fund, and fixed assets which are reported in the General Fixed Assets Account Group at June 30, 1989. Although the total amount of the physical loss, as well as the potential for various legal claims has not yet been determined, Commonwealth officials do not believe that the ultimate physical loss, the majority of which is insured by third-party insurance coverage and through self-insurance, will have a material financial effect on either the Manufacturing Fund or the General Fixed Assets Account Group. On November 10, 1989 Governor Casey proposed a $230 million program that would include acquisition of 1,440 modular unit cells and accelerated construction of three 1,000 cell prisons.

On November 1, 1989 the Commonwealth issued $177 million of general obligation bonds, Second Series A and B of 1989, with average interest rates of 6.95 and 6.69 percent, respectively.

Combining Financial Statements and Schedules

Executive
Office
Building



Executive Office Building

Sometimes called the "Old Museum Building" or the "Capitol Annex," this 1894 structure was designed by architect John T. Windrim. Originally, it housed Executive and other offices of the Commonwealth, as well as the State Museum and Library. Now being used for legislative offices, it will be refurbished to serve once again as offices for the Governor and staff.

Special Revenue Funds

Finance Building

Finance Building

Designed by Gehron and Ross of New York City and completed in 1939, this seven-story building is U-shaped in plan. A frieze, by sculptor C. P. Jennewein, encircles the building. A series of medallions in this frieze presents a symbolic record of economic achievements in the Commonwealth. In addition, there is a carved series of moral precepts as well as the names of Pennsylvania cities, each with a medallion suggesting an outstanding activity of that city. The famous Carl Milles doors are of men working in the glass, oil, steel and anthracite industries and on the farm. The Lee Lawrie sculpture, on the north facade, shows natural products of the Commonwealth on the left, and products used in the daily lives of its citizens on the right of the adaptation of the State Seal.

SPECIAL REVENUE FUNDS
DESCRIPTIONS

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

State Lottery Fund — to account for the payment of prizes to winners in the state lottery, for property tax and rent assistance to the elderly, for mass transit fare subsidies, for the inflation dividend program for the elderly and for a partial rebate of drug and medical costs incurred by the elderly.

Motor License Fund — to account for highway and bridge improvement, design and maintenance, for the purchase of Rights-of-Way, for aviation activities, for transportation licensing and safety activities, for payment of subsidies for construction and maintenance of roads, and for financing Pennsylvania State Police highway patrol operations.

Workmen's Compensation Administration Fund — to account for the administration of the Pennsylvania Workmen's Compensation Act and the Pennsylvania Occupational Disease Act. The Fund assesses insurance companies and self-insured businesses a periodic fee for costs incurred in administering these Acts.

State Public School Building Authority — to account for the administration of the State Public School Building Authority (SPSBA). The SPSBA acts as a financing authority for the construction and improvement of public school facilities. Excess funds, after payment of debt service and administrative costs, are returned to the public schools.

Pharmaceutical Assistance Fund — to account for a limited pharmaceutical assistance program for the Commonwealth's senior citizens who are 65 years of age or older.

Water Facilities Loan Fund — to account for the implementation of the water project loan referendum that authorizes the Commonwealth to approve loans to local water companies for the repair, construction, extension and improvement of water supply systems, dams and port facilities and water control systems. Repayments of principal and interest from loans are transferred to the General Fund.

Pennsylvania Economic Revitalization Fund — to account for the promotion of economic redevelopment throughout Pennsylvania, for grants and loans for industrial and small business development, for acquisition of equipment for vocational programs in secondary schools, and for agricultural and recreational programs.

Energy Conservation and Assistance Fund — to account for monies received from oil overcharge settlements to finance supplemental low income weatherization and assistance programs, energy conservation activities and solid waste resource recovery programs.

Fish and Game Fund — to account for the administration and enforcement of fish and game laws and for the protection and propagation of game and aquatic life.

Pennsylvania Higher Educational Facilities Authority — to account for the administration of the Pennsylvania Higher Educational Facilities Authority (PHEFA). The PHEFA acts as a financing authority for the construction and improvement of higher educational institutions. Excess funds, after payment of debt service and administrative costs, are returned to the higher educational institutions.

Other — to account for programs related to conservation and protection of natural resources, the preservation of historical landmarks, administrative and regulatory activities of various departmental programs, and other miscellaneous Commonwealth activities.

COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS

June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Budgeted Funds											
	State Lottery	Motor License	Workmen's Compensation Administration	State Public School Building Authority	Pharmaceutical Assistance	Water Facilities Loan	Pennsylvania Economic Revitalization	Energy Conservation and Assistance	Fish and Game	Pennsylvania Higher Educational Facilities Authority	Other	Total
ASSETS												
Cash	$ 2,404	$ 24,345	$ 21	$ 318	$ 1	$	$ 114	$	$ 516	$	$ 2,007	$ 29,726
Cash with fiscal agent										4,317		4,317
Temporary investments	289,504	284,453	10,200	8,619	31,597	6,670	55,051	69,608	53,507	12,486	135,030	956,725
Long-term investments	14,903			3,634								18,537
Receivables, net:												
Taxes		138,853										138,853
Accounts	64,629										2,965	67,594
Accrued interest	2,374	2,299	3	240	133	625	460	517	446	116	1,442	8,655
Loans						60,872	10,184				36,643	107,699
Lease rental				254,687						953,517		1,208,204
Other		2,567										2,567
Due from other funds		8,541	9						2,160		10,463	21,173
Due from other governments	4,052	78,977							2,510		5,033	90,572
Other											16	16
TOTAL ASSETS	$ 377,866	540,035	$ 10,233	$ 267,498	$ 31,731	$ 68,167	$ 65,809	$ 70,125	$ 59,139	$ 970,436	$ 193,599	$ 2,654,638
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable and accrued liabilities	$ 249,111	$ 209,895	$ 1,470	$ 343	$ 9,439	$	$ 5,019	$ 7,963	$ 4,283	$	$ 14,385	$ 501,908
Tax refunds payable		2,398										2,398
Due to other funds	5,113	22,268	509	2	13	3,992	922	172	1,659		5,389	40,039
Due to other governments	6,299	11,164	34		1			240	124		1,421	19,283
Deferred revenue	2,128	41		254,687						953,517	5,087	1,215,460
Advances from other funds		2,175										2,175
TOTAL LIABILITIES	262,651	247,941	2,013	255,032	9,453	3,992	5,941	8,375	6,066	953,517	26,282	1,781,263
Fund Balance:												
Reserved for:												
Encumbrances	1,470	151,203	161	33	4	6,270	25,631	3,064	3,984		13,049	204,869
Loans						60,872	10,184				36,643	107,699
Unreserved:												
Designated for:												
Highways		79,478										79,478
Other	820						19,090	4,440	17		18,983	43,350
Undesignated (deficit)	112,925	61,413	8,059	12,433	22,274	(2,967)	4,963	54,246	49,072	16,919	98,642	437,979
TOTAL FUND BALANCES	115,215	292,094	8,220	12,466	22,278	64,175	59,868	61,750	53,073	16,919	167,317	873,375
TOTAL LIABILITIES AND FUND BALANCES	$ 377,866	$ 540,035	$ 10,233	$ 267,498	$ 31,731	$ 68,167	$ 65,809	$ 70,125	$ 59,139	$ 970,436	$ 193,599	$ 2,654,638

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Budgeted Funds											
	State Lottery	Motor License	Workmen's Compensation Administration	State Public School Building Authority	Pharmaceutical Assistance	Water Facilities Loan	Pennsylvania Economic Revitalization	Energy Conservation and Assistance	Fish and Game	Pennsylvania Higher Educational Facilities Authority	Other	Total
REVENUES:												
Taxes	$	$ 998,304	$	$	$	$	$	$	$	$	$ 38,378	$ 1,036,682
Licenses and fees	102	475,167										
Intergovernmental	51,550	830,546							40,168		15,059	529,496
Charges for sales and services	4,303	88,830	14,971	861		5,167	266		9,419		72,767	964,282
Investment income	27,132	27,062	744	1,485	2,132	4,484	5,188	7,971	11,797		20,724	146,919
Lottery revenues	1,575,312								4,944	941	15,809	97,892
Lease rental principal				35,196								1,575,312
Lease rental interest				16,198						45,394		80,590
Other	1,995	55,433	74	32			108	6,147	1,275	42,855 356	14,292	59,053 79,712
TOTAL REVENUES	1,660,394	2,474,342	15,789	53,772	2,132	9,651	5,562	14,118	67,603	89,546	177,029	4,569,938
EXPENDITURES:												
Current:												
General government	947,510	59,460	15,859				240	43,116			55,567	1,121,752
Protection of persons and property											373	373
Public health and welfare	565,230				194,320						101,308	860,858
Public education				3,942						224	240	4,406
Conservation of natural resources						572	10,617		63,404		10,145	84,738
Economic development and assistance							47,653				1,310	48,963
Transportation	1,847	2,027,417										2,029,264
Capital outlay		39,556										39,556
Debt Service:												
Interest and fiscal charges	2,721	2,590			185	454	512	794	492		1,114	8,862
TOTAL EXPENDITURES	1,517,308	2,129,023	15,859	3,942	194,505	1,026	59,022	43,910	63,896	224	170,057	4,198,772
REVENUES OVER (UNDER) EXPENDITURES	143,086	345,319	(70)	49,830	(192,373)	8,625	(53,460)	(29,792)	3,707	89,322	6,972	371,166
OTHER FINANCING SOURCES (USES):												
Bond proceeds											2,767	2,767
Operating transfers in		97,788		3,413	165,000		41,050		1,431	17,039	23,246	348,959
Operating transfers out	(183,881)	(431,005)		(51,316)		(10,292)	(4,679)	627	(6)	(108,216)	(9,428)	(798,196)
Capital lease and installment purchase obligations		22,455										22,455
Other							(50)		(3)	(87)	(318)	(458)
NET OTHER FINANCING SOURCES (USES)	(183,881)	(310,770)		(47,903)	165,000	(10,292)	36,321	627	1,422	(91,264)	16,267	(424,473)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(40,795)	34,549	(70)	1,927	(27,373)	(1,667)	(17,139)	(29,165)	5,129	(1,942)	23,239	(53,307)
FUND BALANCES, JULY 1, 1988	156,010	257,545	8,290	10,539	49,651	65,842	88,007	90,915	47,944	18,861	139,991	933,595
RESIDUAL EQUITY TRANSFERS							(11,000)				4,087	(6,913)
FUND BALANCES, JUNE 30, 1989	$ 115,215	$ 292,094	$ 8,220	$ 12,466	$ 22,278	$ 64,175	$ 59,868	$ 61,750	$ 53,073	$ 16,919	$ 167,317	$ 873,375

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN UNRESERVED/UNDESIGNATED FUND BALANCES— BUDGET AND ACTUAL (BUDGETARY BASIS) BUDGETED SPECIAL REVENUE FUNDS

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	State Lottery			Motor License		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
State Programs:						
Taxes, net of refunds	$	$	$	$ 943,510	$ 925,257	$ (18,253)
Lottery receipts	836,181	893,431	57,250			
Licenses and fees				449,100	459,847	10,747
Departmental services	4,388	4,388		22,190	22,190	
Other	21,239	26,059	4,820	67,400	78,623	11,223
TOTAL STATE PROGRAMS	861,808	923,878	62,070	1,482,200	1,485,917	3,717
Federal Programs	54,616	52,897	(1,719)	763,298	709,254	(54,044)
TOTAL REVENUES	916,424	976,775	60,351	2,245,498	2,195,171	(50,327)
EXPENDITURES:						
State Programs:						
General government	289,730	288,178	1,552	229,392	213,521	15,871
Protection of persons and property				171,471	171,371	100
Public health and welfare	682,724	682,157	567			
Public education				2,300	1,910	390
Transportation				1,169,394	1,155,368	14,026
TOTAL STATE PROGRAMS	972,454	970,335	2,119	1,572,557	1,542,170	30,387
Federal Programs	54,616	52,897	1,719	763,298	709,254	54,044
TOTAL EXPENDITURES	1,027,070	1,023,232	3,838	2,335,855	2,251,424	84,431
REVENUES OVER (UNDER) EXPENDITURES	(110,646)	(46,457)	64,189	(90,357)	(56,253)	34,104
OTHER FINANCING SOURCES:						
Prior year lapses	23,344	23,344		26,749	26,749	
TOTAL OTHER FINANCING SOURCES	23,344	23,344		26,749	26,749	
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(87,302)	(23,113)	64,189	(63,608)	(29,504)	34,104
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JULY 1, 1988	279,753	279,753		104,147	104,147	
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 1989	$ 192,451	$ 256,640	$ 64,189	$ 40,539	$ 74,643	$ 34,104

(Expressed in Thousands)

Workmen's Compensation Administration			State Public School Building Authority			Total		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
$ 15,200	$ 14,966	$ (234)	$	$	$	$ 958,710	$ 940,223	$ (18,487)
						836,181	893,431	57,250
			1,678	1,030	(648)	450,778	460,877	10,099
			1,265	1,265		27,843	27,843	
1,201	926	(275)	565	763	198	90,405	106,371	15,966
16,401	15,892	(509)	3,508	3,058	(450)	2,363,917	2,428,745	64,828
						817,914	762,151	(55,763)
16,401	15,892	(509)	3,508	3,058	(450)	3,181,831	3,190,896	9,065
15,224	15,224		1,434	1,226	208	535,780	518,149	17,631
						171,471	171,371	100
						682,724	682,157	567
						2,300	1,910	390
						1,169,394	1,155,368	14,026
15,224	15,224		1,434	1,226	208	2,561,669	2,528,955	32,714
						817,914	762,151	55,763
15,224	15,224		1,434	1,226	208	3,379,583	3,291,106	88,477
1,177	668	(509)	2,074	1,832	(242)	(197,752)	(100,210)	97,542
229	229					50,322	50,322	
229	229					50,322	50,322	
1,406	897	(509)	2,074	1,832	(242)	(147,430)	(49,888)	97,542
7,933	7,933		7,587	7,587		399,420	399,420	
$ 9,339	$ 8,830	$ (509)	$ 9,661	$ 9,419	$ (242)	$ 251,990	$ 349,532	$ 97,542

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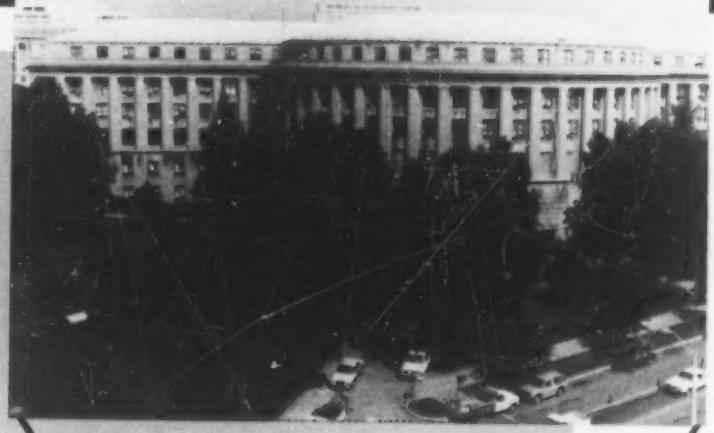
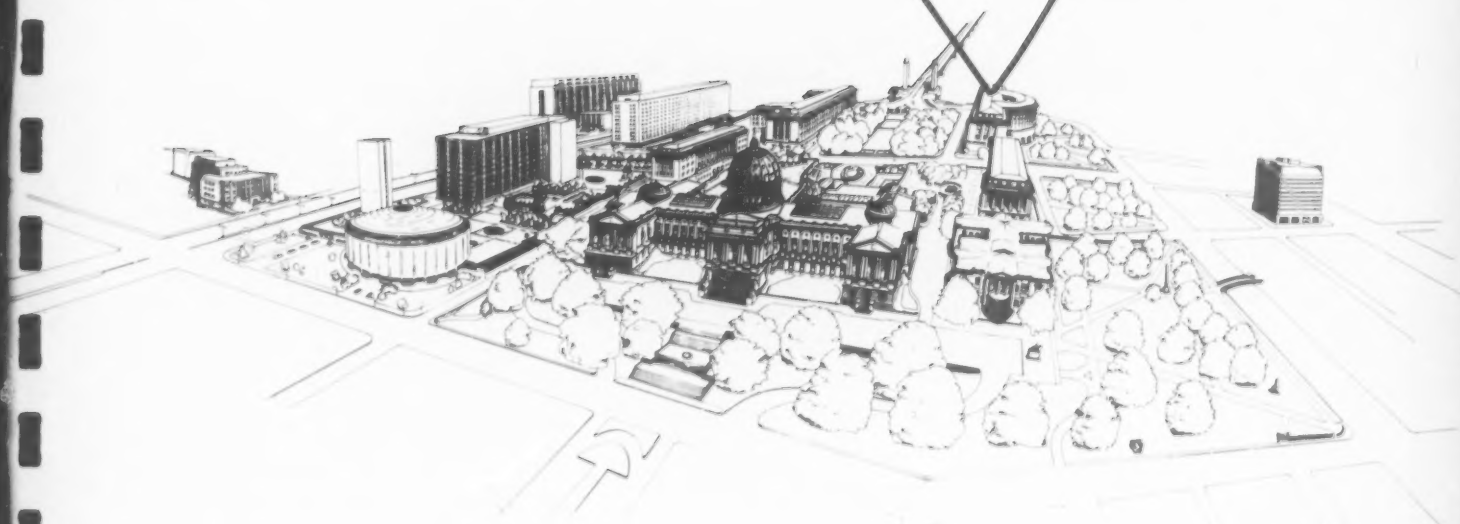
Debt Service Funds



Forum Building



Forum Building

(formerly the State Education Building)

The Forum Building, designed by William Gehron, was completed in 1931. It houses the Pennsylvania State Library, the State Law Library, and the offices of several departments of state government. Just below the outside cornice of the building are carved the names of 35 educators, philanthropists, and statesmen who have rendered outstanding services to education in Pennsylvania. The most outstanding feature of the Forum Building is the auditorium, a 1,821-seat performing arts facility influenced by the classical architecture of Greece and Rome. Highlighting the auditorium is its magnificent artwork which includes a ceiling depicting the celestial bodies of the universe with more than 1,000 stars and maps and chronological tables on the rear wall tracing the history of civilization.

DEBT SERVICE FUNDS
DESCRIPTIONS

Debt service funds account for the accumulation of resources, principally from transfers from other funds, for the payment of general long-term debt principal and interest.

Pennsylvania Economic Revitalization Sinking Fund — to account for the payment of principal and interest on bonds issued for the promotion of economic redevelopment throughout Pennsylvania. Funding consists of transfers from the General Fund and the Pennsylvania Economic Revitalization Fund.

Water Facilities Loan Redemption Fund — to account for the payment of principal and interest on bonds issued for loans to local water companies for the repair, construction, extension and improvement of water supply systems, dams and port facilities and water control systems. Funding consists of transfers from the General Fund and the Water Facilities Loan Fund.

Capital Debt Fund — to account for the payment of principal and interest related to general obligation bonds issued for capital projects authorized by Capital Budget Acts. Funding consists of transfers from the General Fund and the Motor License Fund.

Pennsylvania Higher Educational Facilities Authority — to account for the payment of principal and interest on bonds issued by the Pennsylvania Higher Educational Facilities Authority (PHEFA). The PHEFA acts as the financing authority for the construction and improvement of higher educational institutions. Funding consists of rental payments collected for the use of the facilities.

State Public School Building Authority — to account for the payment of principal and interest on bonds issued by the State Public School Building Authority (SPSBA). The SPSBA acts as a financing authority for the construction and improvement of public school facilities. Funding consists of rental payments collected for the use of the facilities and transfers from the SPSBA Special Revenue Fund.

Other — to account for the payment of principal and interest on bonds issued for loans to nursing homes and volunteer fire companies, for disaster relief grants and for compensation to Vietnam Veterans. Funding consists of transfers from the General Fund.

COMBINING BALANCE SHEET
DEBT SERVICE FUNDS

June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Capital Debt	Pennsylvania Higher Educational Facilities Authority	State Public School Building Authority	Other	Total
ASSETS							
Cash	$ 1	$ -	$ -	$ -	$ 32	$ 1	$ 34
Cash with fiscal agents	13	37	21,275	6,455	-	2,937	30,717
Temporary investments	3,181	-	68,006	64,636	6,910	736	143,469
Long-term investments	-	-	-	41,218	11,429	-	52,647
Receivables, net:							
Accrued interest	31	-	3	1,810	322	3	2,169
Lease rental	-	-	37,523	-	-	-	37,523
Due from other funds	847	57	-	-	-	109	1,013
TOTAL ASSETS	$ 4,073	$ 94	$ 126,807	$ 114,119	$ 18,693	$ 3,786	$ 267,572
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	$ -	$ -	$ 34	$ -	$ -	$ -	$ 34
Matured debt principal and interest payable	13	37	21,275	-	-	2,934	24,259
Due to other funds	-	-	-	-	-	1	1
Deferred revenue	-	-	37,523	-	-	-	37,523
Notes payable	-	-	67,000	-	-	-	67,000
Other liabilities	-	-	899	-	-	105	1,004
TOTAL LIABILITIES	13	37	126,731	-	-	3,040	129,821
Fund Balance:							
Unreserved:							
Designated for:							
Debt Service:							
Retirement of general obligation bonds	4,060	57	76	-	-	746	4,939
Retirement of revenue bonds	-	-	-	114,119	18,693	-	132,812
TOTAL FUND BALANCES	4,060	57	76	114,119	18,693	746	137,751
TOTAL LIABILITIES AND FUND BALANCES	$ 4,073	$ 94	$ 126,807	$ 114,119	$ 18,693	$ 3,786	$ 267,572

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Capital Debt	Pennsylvania Higher Educational Facilities Authority	State Public School Building Authority	Other	Total
REVENUES:							
Investment income	$ 96	$ 50	$ 46	$ 22,897	$ 2,349	$ 921	$ 26,359
Other	- - - -	- - - -	8,335	456	- - - -	2	8,793
TOTAL REVENUES	96	50	8,381	23,353	2,349	923	35,152
EXPENDITURES:							
Debt Service:							
Principal retirement	8,200	6,945	278,310	51,947	37,750	57,000	440,152
Interest and fiscal charges	3,253	8,720	238,861	95,404	15,551	46,244	408,033
TOTAL EXPENDITURES	11,453	15,665	517,171	147,351	53,301	103,244	848,185
REVENUES UNDER EXPENDITURES	(11,357)	(15,615)	(508,790)	(123,998)	(50,952)	(102,321)	(813,033)
OTHER FINANCING SOURCES (USES):							
Refunding bond proceeds	- - - -	- - - -	126,496	36,720	- - - -	- - - -	163,216
Operating transfers in	12,422	14,722	508,866	148,626	51,994	87,659	824,289
Operating transfers out	- - - -	- - - -	- - - -	(17,381)	(2,253)	(12)	(19,646)
Payment to refunded bond escrow agent	- - - -	- - - -	(126,496)	(36,537)	- - - -	- - - -	(163,033)
Other	- - - -	- - - -	- - - -	(4,726)	47	- - - -	(4,679)
NET OTHER FINANCING SOURCES	12,422	14,722	508,866	126,702	49,788	87,647	800,147
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,065	(893)	76	2,704	(1,164)	(14,674)	(12,886)
FUND BALANCES, JULY 1, 1988	2,995	950	- - - -	111,415	19,857	6,932	142,149
RESIDUAL EQUITY TRANSFER	- - - -	- - - -	- - - -	- - - -	- - - -	8,488	8,488
FUND BALANCES, JUNE 30, 1989	$ 4,060	$ 57	$ 76	$ 114,119	$ 18,693	$ 746	$ 137,751

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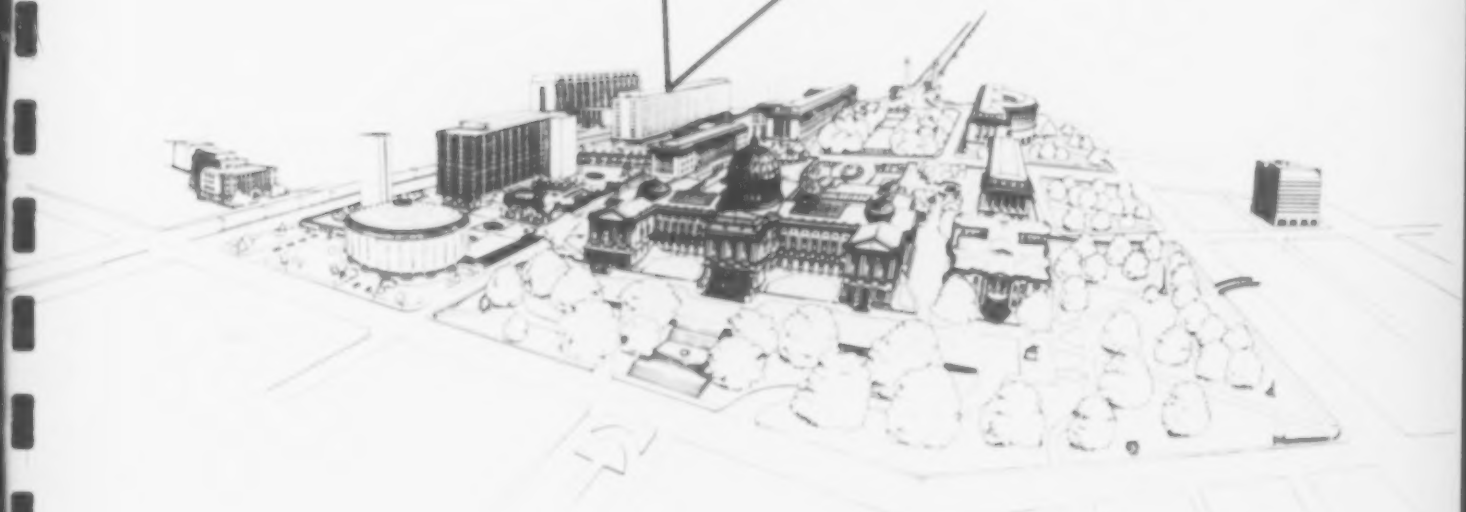
Capital Projects Funds

Health
and Welfare
Building



Health and Welfare Building

Cornerstone ceremonies took place on August 25, 1955, and state offices moved into this modern ten-story building in 1957. This building was designed by Lacy, Atherton and Davis.

CAPITAL PROJECTS FUNDS
DESCRIPTIONS

Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities, including those provided to political subdivisions or other public organizations.

Capital Facilities Fund — to account for the proceeds of general obligation bonds issued to meet the financing costs of capital projects specifically itemized and authorized by Capital Budget Acts.

Pennsylvania Higher Educational Facilties Authority — to account for proceeds of bonds issued to finance the construction and improvement of higher educational institutions.

State Public School Building Authority — to account for the proceeds of bonds issued to finance the construction and improvement of public school facilities.

Other — to account for the proceeds of bonds issued to meet the financing costs for the acquisition, development and improvement to Commonwealth land and facilities.

COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS

June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Capital Facilities	Pennsylvania Higher Educational Facilities Authority	State Public School Building Authority	Other	Total
ASSETS					
Cash	$ 14	$	$ 26	$ 6	$ 46
Cash with fiscal agents		3,362			3,362
Temporary investments	174,207	81,937	70,731	3,775	330,650
Long-term investments		7,161	19,373		26,534
Receivables, net:					
Accrued interest	817	996	1,731	14	3,558
Other			892		892
Due from other funds	436				436
TOTAL ASSETS	$ 175,474	$ 93,456	$ 92,753	$ 3,795	$ 365,478
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 21,615	$	$ 1,280	$ 235	$ 23,130
Due to other funds	7,014			119	7,133
Due to other governments				12	12
TOTAL LIABILITIES	28,629		1,280	366	30,275
Fund Balance:					
Reserved for:					
Encumbrances	211,068			606	211,674
Unreserved:					
Designated for:					
Capital projects		93,456	91,473	2,823	187,752
Undesignated (deficit)	(64,223)				(64,223)
TOTAL FUND BALANCES	146,845	93,456	91,473	3,429	335,203
TOTAL LIABILITIES AND FUND BALANCES	$ 175,474	$ 93,456	$ 92,753	$ 3,795	$ 365,478

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES CAPITAL PROJECTS FUNDS

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Capital Facilities	Pennsylvania Higher Educational Facilities Authority	State Public School Building Authority	Other	Total
REVENUES:					
Intergovernmental	$ 9,034	$	$	$ 14	$ 9,048
Investment income	7,802	11,261	5,319	278	24,660
Other	517	5,107		40	5,664
TOTAL REVENUES	17,353	16,368	5,319	332	39,372
EXPENDITURES:					
Public education		136,056	16,314		152,370
Economic development and assistance	63,162				63,162
Transportation	45,291				45,291
Capital outlay	155,599			2,801	158,400
Debt service:					
Interest and fiscal charges	556			10	566
TOTAL EXPENDITURES	264,608	136,056	16,314	2,811	419,789
REVENUES UNDER EXPENDITURES	(247,255)	(119,688)	(10,995)	(2,479)	(380,417)
OTHER FINANCING SOURCES (USES):					
Bond proceeds	340,426	108,779	71,886	4,645	525,736
Operating transfers in		3,690	1,913		5,603
Operating transfers out	(96,232)	(43,941)	(904)	(91)	(141,168)
Other	(64)	(2,212)	(7,894)	(629)	(10,799)
NET OTHER FINANCING SOURCES	244,130	66,316	65,001	3,925	379,372
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(3,125)	(53,372)	54,006	1,446	(1,045)
FUND BALANCES, JULY 1, 1988	159,677	146,828	37,467	16,324	360,296
RESIDUAL EQUITY TRANSFERS	(9,707)			(14,341)	(24,048)
FUND BALANCES, JUNE 30, 1989	$ 146,845	$ 93,456	$ 91,473	$ 3,429	$ 335,203

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Enterprise Funds

Labor
and Industry
Building

Labor and Industry Building

Designed by Lacy, Atherton and Davis, this eighteen-story building with an elliptical convex facade was dedicated on May 7, 1956. It is the first post-war building in the Capitol Complex "northern extension area," planned in 1947 by William Gehron.

ENTERPRISE FUNDS DESCRIPTIONS

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Pennsylvania Turnpike Commission (PTC) — to account for the construction, operation and maintenance of the Pennsylvania Turnpike System. The PTC was created as an instrumentality of the Commonwealth with powers to issue revenue bonds payable from tolls and other revenues collected.

Pennsylvania Industrial Development Authority — to account for loans to local industrial development agencies to stimulate economic activity in areas of high unemployment. Earnings of the Authority and repayments of loans receivable are reinvested in additional loans.

State Workmen's Insurance Fund — to account for and provide workmen's compensation insurance to private employers in the Commonwealth, including those unable to obtain coverage from private insurance firms.

State Stores Fund — to account for the general operation of the Pennsylvania Liquor Control Board. Expenses include all costs associated with the operation and administration of the Liquor Store System and enforcement of the Liquor Control Law.

Pennsylvania Higher Education Assistance Agency — to account for a variety of programs, such as scholarships and student loans, designed to provide financial assistance to students and institutions of higher education. Earnings of the Agency and repayments of loans receivable are retained for additional loans and programmatic purposes.

Pennsylvania Housing Finance Agency — to account for financing the construction and rehabilitation of housing units for sale or rent to low and moderate income persons and families or the elderly, and to make or purchase loans to finance the purchase, construction, improvement or rehabilitation of owner-occupied single-family residences. Earnings of the Agency and repayments of notes and loans receivable are reinvested for financing of additional projects.

Pennsylvania Infrastructure Investment Authority (PENNVEST) — to account for loans and other financing activities for the construction, improvement, repair or rehabilitation of drinking water supply and sewage disposal systems throughout the Commonwealth. PENNVEST was created as an instrumentality of the Commonwealth, funded by contributed capital from other funds and general obligation bonds authorized by referendum. Earnings of the authority and repayments of loans are reinvested for additional financing activities.

Other — to account for enterprise operations including activities associated with low interest loans to manufacturers, minority business loans, vocational rehabilitation services, and loans to volunteer fire, ambulance and rescue companies, and loans and grants issued to attract industrial, manufacturing or research and development enterprises to the Commonwealth of Pennsylvania.

COMBINING BALANCE SHEET
ENTERPRISE FUNDS

June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 1989)	Pennsylvania Industrial Development Authority	State Workmen's Insurance (Dec. 31, 1988)	State Stores (June 27, 1989)	Pennsylvania Higher Education Assistance Agency	Pennsylvania Housing Finance Agency	Pennsylvania Infrastructure Investment Authority	Other	Total
ASSETS									
Cash	$ 1,025	$ 509	$ 1,509	$ 3,629	$ 8,152	$ -	$ 6	$ 333	$ 15,163
Temporary investments	942,369	167,210	148,473	51,249	400,992	640,445	98,059	128,474	2,577,271
Long-term investments	200,131	-	864,114	-	9,996	203,650	-	190	1,278,081
Receivables, net:									
Accounts	3,830	-	20,168	748	6,564	-	-	42	31,352
Accrued interest	4,195	2,504	21,582	388	30,579	13,221	703	1,212	74,384
Loans	-	407,006	-	-	877,245	1,353,107	28,659	94,778	2,760,795
Due from other funds	-	-	99	-	-	-	3,367	486	3,952
Due from other governments	-	-	-	-	10,703	-	-	17	10,720
Inventory	5,497	-	-	90,301	-	-	-	380	96,178
Fixed assets	1,347,700	-	5,661	27,566	34,938	2,347	17	35,507	1,453,736
Less: accumulated depreciation	(646,509)	-	(3,073)	(13,059)	(7,896)	(1,328)	(1)	(24,993)	(696,859)
Other assets	14,038	940	3,468	157	12,857	12,412	-	-	43,872
TOTAL ASSETS	$ 1,872,276	$ 578,169	$ 1,062,001	$ 160,979	$ 1,384,130	$ 2,223,854	$ 130,810	$ 236,426	$ 7,648,645
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts payable and accrued liabilities	$ 54,546	$ 137	$ 2,820	$ 65,974	$ 28,648	$ 62,670	$ 5,508	$ 2,293	$ 222,596
Due to other funds	1,777	65	272	15,605	805	25	46	313	18,908
Due to other governments	152	-	4	211	8,692	-	12	15	9,086
Deferred revenue	-	27	9,184	-	18,601	1,245	-	1,003	30,060
Notes payable	-	-	-	-	374,497	15,021	-	-	389,518
Demand revenue bonds payable	-	-	-	-	435,000	-	-	-	435,000
Advances from other funds	-	-	2,000	66,000	-	-	-	-	68,000
Other liabilities	2,967	4,954	7,435	865	11,377	86,606	-	15	114,219
Insurance loss liability	-	-	663,527	-	-	-	-	-	663,527
Revenue bonds payable	1,028,531	99,091	-	-	313,000	1,810,548	-	-	3,251,170
TOTAL LIABILITIES	1,087,973	104,274	685,242	148,655	1,190,620	1,976,115	5,566	3,639	5,202,084
Fund Equity:									
Contributed capital	46,725	352,490	-	2,294	-	1,960	127,044	213,415	743,928
Retained earnings:									
Reserved	737,578	-	105,429	-	146,369	27,165	-	2,265	1,018,806
Unreserved (deficit)	-	121,405	271,330	10,030	47,141	218,614	(1,800)	17,107	683,827
TOTAL FUND EQUITY	784,303	473,895	376,759	12,324	193,510	247,739	125,244	232,787	2,446,561
TOTAL LIABILITIES AND FUND EQUITY	$ 1,872,276	$ 578,169	$ 1,062,001	$ 160,979	$ 1,384,130	$ 2,223,854	$ 130,810	$ 236,426	$ 7,648,645

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 1989)	Pennsylvania Industrial Development Authority	State Workmen's Insurance (Dec. 31, 1988)	State Stores (June 27, 1989)	Pennsylvania Higher Education Assistance Agency	Pennsylvania Housing Finance Agency	Pennsylvania Infrastructure Investment Authority	Other	Total
OPERATING REVENUES:									
Sales and services	$ 215,514	$ - - - -	$ 125,422	$ 612,358	$ 64,870	$ 3,652	$ - - - -	$ 14,862	$ 1,036,678
Investment income	- - - -	13,638	105,577	- - - -	53,982	60,557	3,845	8,957	246,556
Interest on notes and loans	- - - -	14,643	- - - -	- - - -	66,845	118,326	35	3,010	202,859
Other	5,309	1,196	- - - -	- - - -	- - - -	- - - -	- - - -	1,180	7,685
TOTAL OPERATING REVENUES	220,823	29,477	230,999	612,358	185,697	182,535	3,880	28,009	1,493,778
OPERATING EXPENSES:									
Cost of sales and services	105,619	2,223	169,354	584,870	232,181	8,402	5,313	13,998	1,121,960
Interest expense	- - - -	10,642	323	- - - -	71,282	149,159	374	893	232,673
Depreciation	52,020	- - - -	791	2,149	3,992	233	1	5,448	64,634
Bad debts	- - - -	936	1,304	496	- - - -	13,721	- - - -	(234)	16,223
TOTAL OPERATING EXPENSES	157,639	13,801	171,772	587,515	307,455	171,515	5,688	20,105	1,435,490
OPERATING INCOME (LOSS)	63,184	15,676	59,227	24,843	(121,758)	11,020	(1,808)	7,904	58,288
NONOPERATING REVENUES (EXPENSES):									
Investment income	24,369	- - - -	- - - -	3,052	- - - -	- - - -	- - - -	1,003	28,424
Interest expense	(10,589)	- - - -	- - - -	(381)	- - - -	- - - -	- - - -	(96)	(11,066)
Other	- - - -	- - - -	(1,217)	(3,957)	- - - -	729	- - - -	(5)	(4,450)
NONOPERATING REVENUES (EXPENSES)	13,780	- - - -	(1,217)	(1,286)	- - - -	729	- - - -	902	12,908
INCOME (LOSS) BEFORE OPERATING TRANSFERS	76,964	15,676	58,010	23,557	(121,758)	11,749	(1,808)	8,806	71,196
OPERATING TRANSFERS:									
Operating transfers in	- - - -	- - - -	- - - -	- - - -	154,822	11,700	- - - -	- - - -	166,522
Operating transfers out	- - - -	- - - -	(60,000)	(16,000)	- - - -	- - - -	- - - -	- - - -	(76,000)
TOTAL OPERATING TRANSFERS	- - - -	- - - -	(60,000)	(16,000)	154,822	11,700	- - - -	- - - -	90,522
NET INCOME (LOSS)	76,964	15,676	(1,990)	7,557	33,064	23,449	(1,808)	8,806	161,718
RETAINED EARNINGS, JULY 1, 1988	660,614	105,729	378,749	2,473	160,446	222,330	8	10,566	1,540,915
RETAINED EARNINGS (DEFICIT), JUNE 30, 1989	$ 737,578	$ 121,405	$ 376,759	$ 10,030	$ 193,510	$ 245,779	$ (1,800)	$ 19,372	$ 1,702,633

COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION
ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 1989)	Pennsylvania Industrial Development Authority	State Workmen's Insurance (Dec. 31, 1988)	State Stores (June 27, 1989)	Pennsylvania Higher Education Assistance Agency	Pennsylvania Housing Finance Agency	Pennsylvania Infrastructure Investment Authority	Other	Total
CASH PROVIDED FROM (USED FOR) OPERATIONS:									
Net income (loss)	$ 76,964	$ 15,676	$ (1,990)	$ 7,557	$ 33,064	$ 23,449	$ (1,808)	$ 8,806	$ 161,718
Items not using (providing) cash:									
Depreciation	52,020		791	2,149	3,992	233	1	5,448	64,634
Net amortization	(3,174)	513	285			3,016			640
Net gain on sale of long-term investments			(11,895)						(11,895)
	125,810	16,189	(12,809)	9,706	37,056	26,698	(1,807)	14,254	215,097
Increase in receivables	(1,153)	(14,603)	(12,024)	(262)	(513,591)	(110,291)	(29,290)	(25,880)	(707,091)
Decrease in due from other funds			67				58,928	382	59,377
Decrease (increase) in due from other governments					6,479			(4)	6,475
Decrease (increase) in inventory	(513)			17,234				36	16,757
Increase (decrease) in accounts payable and accrued liabilities	12,194	(174)	1,273	(1,965)	17,610	5,424	5,508	(32)	39,838
Increase (decrease) in due to other funds	(505)	40	71	231	144	2	58	63	104
Increase (decrease) in due to other governments	(112)		(16)	5	(7,796)			1	(7,918)
Increase (decrease) in deferred revenue		(3)	1,179		(3,527)	252		(19)	(2,118)
Increase in insurance loss liability			64,737						64,737
TOTAL CASH PROVIDED FROM (USED FOR) OPERATIONS	135,721	1,452	42,478	24,949	(463,625)	(77,915)	33,397	(11,199)	(314,742)
CASH PROVIDED FROM (USED FOR) INVESTMENT ACTIVITIES:									
Decrease (increase) in other current assets	(5,754)	1,007	625	70	(1,058)	(397)			(5,507)
Proceeds from sale of long-term investments	108,292		257,672		14,999				380,963
Purchase of long-term investments			(244,001)			(673)			(244,674)
Increase (decrease) in other current liabilities	311	(329)	3,037	(548)	(16,384)	11,028		(3)	(2,888)
Additions to fixed assets	(91,402)		(1,726)	(4,019)	(9,338)	(96)	(17)	(711)	(107,309)
NET CASH PROVIDED FROM (USED FOR) INVESTMENT ACTIVITIES	11,447	678	15,607	(4,497)	(11,781)	9,862	(17)	(714)	20,585
CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES:									
Issuance of revenue bonds	421,619				111,000	497,980			1,030,599
Increase in contributed capital		12,500					59,685	37,308	109,493
Increase in notes payable					374,497	12,999			387,496
Increase in demand revenue bonds payable					235,000				235,000
Redemption of long-term obligations	(186,070)	(8,505)			(50,000)	(294,226)			(538,801)
NET CASH PROVIDED FROM FINANCING ACTIVITIES	235,549	3,995			670,497	216,753	59,685	37,308	1,223,787
INCREASE IN CASH AND TEMPORARY INVESTMENTS	382,717	6,125	58,085	20,452	195,091	148,700	93,065	25,395	929,630
CASH AND TEMPORARY INVESTMENTS, JULY 1, 1988	560,677	161,594	91,897	34,426	214,053	491,745	5,000	103,412	1,662,804
CASH AND TEMPORARY INVESTMENTS, JUNE 30, 1989	$ 943,394	$ 167,719	$ 149,982	$ 54,878	$ 409,144	$ 640,445	$ 98,065	$ 128,807	$ 2,592,434

Internal Service Funds

North Office Building

North Office Building

This building exactly balances the South Office Building. Following the original design by Arnold W. Brunner, it was completed in 1929. The large bronze entrance doors by C. P. Jennewein contain symbols depicting the construction of highways and other various forms of travel. In the main lobby floor, at terrace level, is a map of Pennsylvania, showing highways of the state and seals of the cities of the Commonwealth.

INTERNAL SERVICE FUNDS
DESCRIPTIONS

Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis.

Purchasing Fund — to account for the purchase of materials, supplies, motor vehicles and other equipment by the Department of General Services for the sale or lease to other Commonwealth departments, boards and commissions.

Manufacturing Fund — to account for the manufacture and sale of goods by inmates in the institutions of the Department of Corrections.

COMBINING BALANCE SHEET
INTERNAL SERVICE FUNDS

June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)		
	Purchasing	Manufacturing	Total
ASSETS			
Cash	$ 157	$ 289	$ 446
Temporary investments	5,845	2,185	8,030
Receivables, net:			
Accounts	32	. . . .	32
Accrued interest	49	20	69
Other	. . . .	52	52
Due from other funds	8,452	2,244	10,696
Due from other governments	773	44	817
Inventory	2,186	9,674	11,860
Fixed assets	30,172	11,231	41,403
Less: accumulated depreciation	(12,698)	(6,989)	(19,687)
Other assets	. . . .	36	36
TOTAL ASSETS	$ 34,968	$ 18,786	$ 53,754
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable and accrued liabilities	$ 3,836	$ 2,057	$ 5,893
Due to other funds	7,943	169	8,112
Due to other governments	10	13	23
Deferred revenue	1,302	1	1,303
Other liabilities	. . . .	132	132
TOTAL LIABILITIES	13,091	2,372	15,463
Fund Equity:			
Contributed capital	9,187	. . . .	9,187
Retained earnings:			
Unreserved	12,690	16,414	29,104
TOTAL FUND EQUITY	21,877	16,414	38,291
TOTAL LIABILITIES AND FUND EQUITY	$ 34,968	$ 18,786	$ 53,754

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)		
	Purchasing	**Manufacturing**	**Total**
OPERATING REVENUES:			
Sales and services	$ 25,213	$ 17,459	$ 42,672
Other		34	34
TOTAL OPERATING REVENUES	25,213	17,493	42,706
OPERATING EXPENSES:			
Cost of sales and services	$ 16,518	$ 16,294	$ 32,812
Depreciation	4,829	497	5,326
TOTAL OPERATING EXPENSES	21,347	16,791	38,138
OPERATING INCOME	3,866	702	4,568
NONOPERATING REVENUES (EXPENSES):			
Investment income	764	314	1,078
Interest expense	(94)	(31)	(125)
TOTAL NONOPERATING REVENUES, NET	670	283	953
NET INCOME	4,536	985	5,521
RETAINED EARNINGS, JULY 1, 1988, AS RESTATED	8,154	15,429	23,583
RETAINED EARNINGS, JUNE 30, 1989	$ 12,690	$ 16,414	$ 29,104

COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION
INTERNAL SERVICE FUNDS

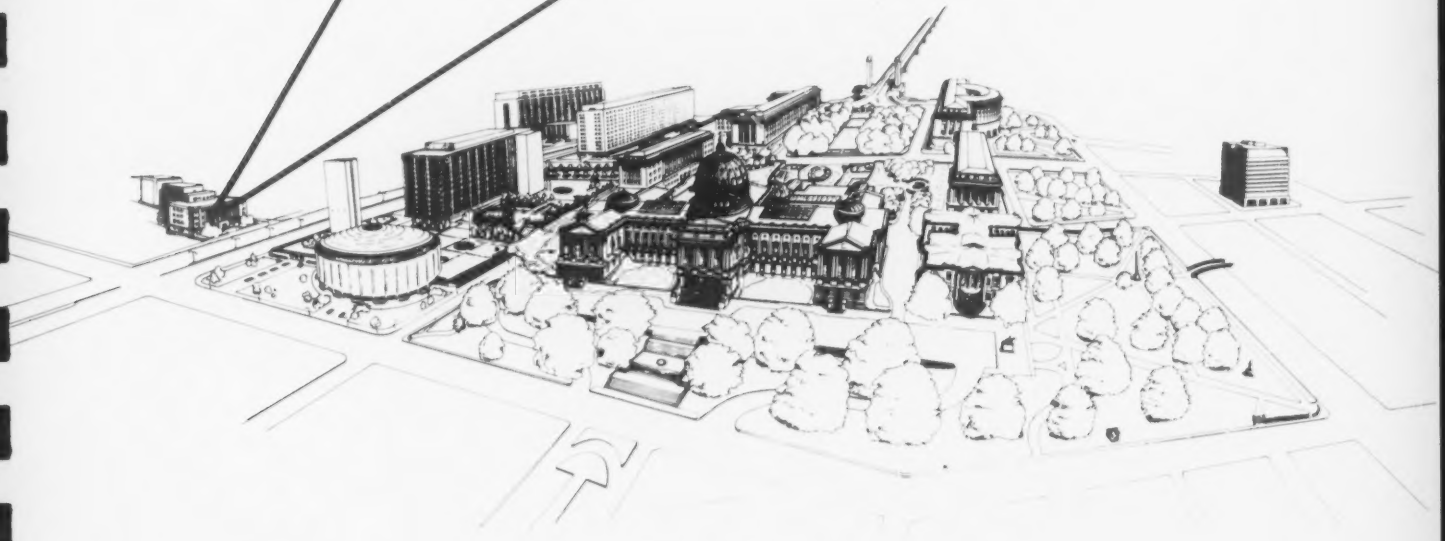
For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)		
	Purchasing	Manufacturing	Total
CASH PROVIDED FROM (USED FOR) OPERATIONS:			
Net income	$ 4,536	$ 985	$ 5,521
Items not using cash:			
Depreciation	4,829	497	5,326
	9,365	1,482	10,847
Increase in receivables	(1,316)	(36)	(1,352)
Increase in due from other funds	(1,188)	(914)	(2,102)
Decrease (increase) in due from other governments	177	(33)	144
Increase in inventory	(421)	(1,306)	(1,727)
Increase (decrease) in accounts payable and accrued liabilities	(633)	232	(401)
Increase in due to other funds	104	20	124
Increase in due to other governments	1	3	4
Increase in deferred revenue	737	1	738
TOTAL CASH PROVIDED FROM (USED FOR) OPERATIONS	6,826	(551)	6,275
CASH PROVIDED FROM (USED FOR) INVESTMENT ACTIVITIES:			
Increase in other current assets	. . . .	(30)	(30)
Decrease in other current liabilities	. . . .	(10)	(10)
Additions to fixed assets	(6,804)	(727)	(7,531)
NET CASH USED FOR INVESTMENT ACTIVITIES	(6,804)	(767)	(7,571)
INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS	22	(1,318)	(1,296)
CASH AND TEMPORARY INVESTMENTS, JULY 1, 1988	5,980	3,792	9,772
CASH AND TEMPORARY INVESTMENTS, JUNE 30, 1989	$ 6,002	$ 2,474	$ 8,476

Trust and Agency Funds

Northwest Office Building



Northwest Office Building

Designed by Verus T. Ritter of Philadelphia, this seven-story building houses the offices of the Liquor Control Board. The building was occupied in 1940. Of interest at the east entrance are two sculptured eagles by Louis Milione.

TRUST AND AGENCY FUNDS DESCRIPTIONS

Trust and Agency Funds account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Expendable Trust Funds, Pension Trust Funds and Agency Funds.

EXPENDABLE TRUST FUNDS

Unemployment Compensation Fund — to account for the receipt of employer and employe contributions under the unemployment compensation law, for the payment of unemployment compensation benefits to eligible individuals, to transfer and receive monies from the Federal Unemployment Trust Fund and to pay the interest due on the Federal Unemployment Compensation Title XII Advances.

Workmen's Compensation Security Trust Fund — to account for the payment of claims for compensation provided by the Workmen's Compensation Law to individuals who are insured by an insolvent stock insurance company and for the administrative costs to administer the program.

Catastrophic Loss Trust Fund — to account for the payment of medical and rehabilitative expenditures in excess of $100,000 to residents of Pennsylvania injured in a motor vehicle accident.

Other — to account for financial assistance to public schools or State Universities for repairs or alterations to buildings needed to satisfy the standards of the Department of Labor and Industry and for reimbursement to aggrieved individuals upon judgments against any person licensed by the Real Estate Commission.

PENSION TRUST FUNDS

State Employes' Retirement System — to account for the payment of retirement, disability and death benefits to members of the State Employes' Retirement System and their beneficiaries.

Public School Employes' Retirement System — to account for the payment of retirement, disability and death benefits to members of the Public School Employes' Retirement System and their beneficiaries.

TRUST AND AGENCY FUNDS—DESCRIPTIONS

AGENCY FUNDS

Social Security Contribution Fund — to hold the employers' and employes' social security deductions of Commonwealth and local government or other instrumentality employes and to remit such collections to the Federal Government.

Statutory Liquidator Fund — to convert the assets of insolvent insurance companies into cash for distribution to creditors, policyholders and stockholders.

Fire Insurance Tax Fund — to collect a two-percent tax paid on premiums received from foreign (out-of-state) fire insurance companies conducting business in the Commonwealth and to distribute monies to local governments based on the amount of foreign fire insurance sold in their municipality. The municipalities must pay these monies to the relief, pension or retirement fund of their recognized fire fighting organization.

Municipal Pension Aid Fund — to collect a portion of the revenues from the Foreign Casualty Insurance Premium Tax and the Foreign Fire Insurance Premium Tax for distribution to municipalities for their distribution to the various municipal, police and fire pension funds.

Medical Professional Liability Catastrophe Loss Fund — to collect annual surcharges levied on health care providers to make available professional liability insurance at a reasonable cost to health care providers.

Other — to collect and administer funds from various sources for distribution to other governments and for the personal needs of patients and inmates at State institutions, and to account for activities of the deferred compensation program.

COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS

June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Expendable Trust Funds	Pension Trust Funds	Agency Funds	Total
ASSETS				
Cash	$ 152	$ 59	$ 4,348	$ 4,559
Cash with fiscal agents	1,519,236			1,519,236
Temporary investments	66,700	2,863,926	399,195	3,329,821
Long-term investments	234,501	18,835,287	16,817	19,086,605
Receivables, net:				
Taxes	283,300		3,754	287,054
Accounts	25		2,428	2,453
Accrued interest	6,058	301,721	2,990	310,769
Pension contributions		219,562		219,562
Other		15,918		15,918
Due from other funds	1,464	220,283	396	222,143
Due from other governments	9,865	13,638	6,007	29,510
Fixed assets		7,688		7,688
Less: accumulated depreciation		(1,413)		(1,413)
Other assets		175,665	2,472	178,137
TOTAL ASSETS	$ 2,121,301	$22,652,334	$ 438,407	$25,212,042
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 139,328	$ 91,144	$ 8,032	$ 238,504
Unsettled investment purchases		246,576		246,576
Tax refunds payable	1,477			1,477
Due to other funds	15	3,502	610	4,127
Due to other governments	1,809		188,411	190,220
Deferred revenue	238			238
Other liabilities			241,354	241,354
TOTAL LIABILITIES	142,867	341,222	438,407	922,496
Fund Balance:				
Reserved for:				
Encumbrances	166			166
Pension benefits		22,311,112		22,311,112
Unreserved:				
Designated for:				
Other	119,227			119,227
Undesignated	1,859,041			1,859,041
TOTAL FUND BALANCES	1,978,434	22,311,112		24,289,546
TOTAL LIABILITIES AND FUND BALANCES	$ 2,121,301	$22,652,334	$ 438,407	$25,212,042

COMBINING BALANCE SHEET
EXPENDABLE TRUST FUNDS

June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Unemployment Compensation	Workmen's Compensation Security Trust	Catastrophic Loss Trust	Other	Total
ASSETS					
Cash	$	$ 127	$ 21	$ 4	$ 152
Cash with fiscal agents	1,519,236	....	....	....	1,519,236
Temporary investments	13,879	5,075	45,670	2,076	66,700
Long-term investments	....	233,923	....	578	234,501
Receivables, net:					
Taxes	283,300	....	....	....	283,300
Accounts	....	....	25	....	25
Accrued interest	111	5,527	403	17	6,058
Due from other funds	1,463	....	....	1	1,464
Due from other governments	9,865	....	....	....	9,865
TOTAL ASSETS	$ 1,827,854	$ 244,652	$ 46,119	$ 2,676	$ 2,121,301
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 47,742	$ 20,712	$ 70,812	$ 62	$ 139,328
Tax refunds payable	1,477	....	....	....	1,477
Due to other funds	....	1	14	....	15
Due to other governments	1,808	....	1	....	1,809
Deferred revenue	238	....	....	....	238
TOTAL LIABILITIES	51,265	20,713	70,827	62	142,867
Fund Balance:					
Reserved for:					
Encumbrances	....	....	....	166	166
Unreserved:					
Designated for:					
Other	....	118,710	....	517	119,227
Undesignated (deficit)	1,776,589	105,229	(24,708)	1,931	1,859,041
TOTAL FUND BALANCES (DEFICIT)	1,776,589	223,939	(24,708)	2,614	1,978,434
TOTAL LIABILITIES AND FUND BALANCES	$ 1,827,854	$ 244,652	$ 46,119	$ 2,676	$ 2,121,301

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES EXPENDABLE TRUST FUNDS

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Unemployment Compensation	Workmen's Compensation Security Trust	Catastrophic Loss Trust	Other	Total
REVENUES:					
Taxes	$ 5,781	$	$	$ 89	$ 5,870
Unemployment taxes	1,385,203				1,385,203
Licenses and fees			21,027		21,027
Investment income	107,979	20,364	7,020	246	135,609
Other	307	13	6	1	327
TOTAL REVENUES	1,499,270	20,377	28,053	336	1,548,036
EXPENDITURES:					
Current:					
General government		1,168	11,142	48	12,358
Protection of persons and property		34,740	62,703	105	97,548
Public health and welfare	961,778				961,778
Public education				224	224
Debt service:					
Interest and fiscal charges	41,840		701	20	42,561
TOTAL EXPENDITURES	1,003,618	35,908	74,546	397	1,114,469
REVENUES OVER (UNDER) EXPENDITURES	495,652	(15,531)	(46,493)	(61)	433,567
OTHER FINANCING SOURCES (USES):					
Operating transfers in				12	12
Operating transfers out	(41,000)				(41,000)
NET OTHER FINANCING SOURCES (USES)	(41,000)			12	(40,988)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	454,652	(15,531)	(46,493)	(49)	392,579
FUND BALANCES, JULY 1, 1988	1,321,937	239,470	21,785	2,663	1,585,855
FUND BALANCES (DEFICIT), JUNE 30, 1989	$ 1,776,589	$ 223,939	$ (24,708)	$ 2,614	$ 1,978,434

COMBINING BALANCE SHEET
PENSION TRUST FUNDS

June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	State Employes' Retirement System (December 31, 1988)	Public School Employes' Retirement System	Total
ASSETS			
Cash	$ 1	$ 58	$ 59
Temporary investments	875,588	1,988,338	2,863,926
Long-term investments	7,264,378	11,570,909	18,835,287
Receivables, net:			
Accrued interest	66,467	235,254	301,721
Pension contributions	. . . .	219,562	219,562
Other	15,918	. . . .	15,918
Due from other funds	90,352	129,931	220,283
Due from other governments	13,638	. . . .	13,638
Fixed assets	74	7,614	7,688
Less: accumulated depreciation	(46)	(1,367)	(1,413)
Other assets	. . . .	175,665	175,665
TOTAL ASSETS	$ 8,326,370	$14,325,964	$22,652,334
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	$ 14,107	$ 77,037	$ 91,144
Unsettled investment purchases	. . . .	246,576	246,576
Due to other funds	405	3,097	3,502
TOTAL LIABILITIES	14,512	326,710	341,222
Fund Balance:			
Reserved for:			
Pension benefits	8,311,858	13,999,254	22,311,112
TOTAL FUND BALANCES	8,311,858	13,999,254	22,311,112
TOTAL LIABILITIES AND FUND BALANCES	$ 8,326,370	$14,325,964	$22,652,334

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
PENSION TRUST FUNDS

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	State Employes' Retirement System (December 31, 1988)	Public School Employes' Retirement System	Total
OPERATING REVENUES:			
Investment income	$ 929,778	$ 1,189,113	$ 2,118,891
Pension contributions	521,506	1,277,313	1,798,819
TOTAL OPERATING REVENUES	1,451,284	2,466,426	3,917,710
OPERATING EXPENSES:			
Cost of sales and services	5,391	10,388	15,779
Interest expense	. . . .	15,937	15,937
Depreciation	15	667	682
Benefit payments and refunds	512,827	863,442	1,376,269
TOTAL OPERATING EXPENSES	518,233	890,434	1,408,667
OPERATING INCOME	933,051	1,575,992	2,509,043
OPERATING TRANSFERS:			
Operating transfers in	14,038	1,651	15,689
Operating transfers out	(2,316)	(12,932)	(15,248)
TOTAL OPERATING TRANSFERS	11,722	(11,281)	441
NET INCOME	944,773	1,564,711	2,509,484
FUND BALANCES, JULY 1, 1988	7,367,085	12,434,543	19,801,628
FUND BALANCES, JUNE 30, 1989	$ 8,311,858	$13,999,254	$22,311,112

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 1988	Additions	Deductions	Balance June 30, 1989
SOCIAL SECURITY CONTRIBUTION FUND				
ASSETS				
Cash	$ 1	$ 19,466	$ 19,462	$ 5
Temporary investments	14,237	19,550	18,630	15,157
Receivables, net:				
Accrued interest	83	1,392	1,343	132
Due from other governments	13,778	6,007	13,778	6,007
TOTAL ASSETS	$ 28,099	$ 46,415	$ 53,213	$ 21,301
LIABILITIES				
Due to other governments	$ 28,099	$ 18,074	$ 24,872	$ 21,301
TOTAL LIABILITIES	$ 28,099	$ 18,074	$ 24,872	$ 21,301
STATUTORY LIQUIDATOR FUND				
ASSETS				
Cash	$ 5	$ 3,275	$ 3,280	$ ....
Temporary investments	45,106	606,754	587,540	64,320
Long-term investments	3,989	10,285	284	13,990
Receivables, net:				
Accounts	174	4,275	2,914	1,535
Accrued interest	213	348	213	348
Other assets	45	479	48	476
TOTAL ASSETS	$ 49,532	$ 625,416	$ 594,279	$ 80,669
LIABILITIES				
Other liabilities	$ 49,532	$ 33,877	$ 2,740	$ 80,669
TOTAL LIABILITIES	$ 49,532	$ 33,877	$ 2,740	$ 80,669

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS — (continued)

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 1988	Additions	Deductions	Balance June 30, 1989
FIRE INSURANCE TAX FUND				
ASSETS				
Cash	$ 2	$ 89,860	$ 89,861	$ 1
Temporary investments	42,131	47,738	43,203	46,666
Receivables, net:				
Accrued interest	243	376	243	376
TOTAL ASSETS	$ 42,376	$ 137,974	$ 133,307	$ 47,043
LIABILITIES				
Due to other funds	$ 243	$ 376	$ 243	$ 376
Due to other governments	42,133	46,657	42,123	46,667
TOTAL LIABILITIES	$ 42,376	$ 47,033	$ 42,366	$ 47,043
MUNICIPAL PENSION AID FUND				
ASSETS				
Cash	$ 2	$ 115,034	$ 115,036	$ . . . .
Temporary investments	101,839	118,323	110,698	109,464
Receivables, net:				
Accrued interest	593	4,336	4,041	888
Due from other funds	291	396	291	396
TOTAL ASSETS	$ 102,725	$ 238,089	$ 230,066	$ 110,748
LIABILITIES				
Due to other governments	$ 102,725	$ 117,866	$ 109,843	$ 110,748
TOTAL LIABILITIES	$ 102,725	$ 117,866	$ 109,843	$ 110,748
MEDICAL PROFESSIONAL LIABILITY CATASTROPHE LOSS FUND				
ASSETS				
Cash	$ 32	$ 322,689	$ 322,050	$ 671
Temporary investments	157,176	160,933	174,567	143,542
Receivables, net:				
Accounts	693	184	693	184
Accrued interest	892	12,277	12,034	1,135
TOTAL ASSETS	$ 158,793	$ 496,083	$ 509,344	$ 145,532
LIABILITIES				
Accounts payable and accrued liabilities	$ 1,934	$ 6,681	$ 5,314	$ 3,301
Due to other funds	23	102	90	35
Due to other governments	3	4	3	4
Other liabilities	156,833	153,302	167,943	142,192
TOTAL LIABILITIES	$ 158,793	$ 160,089	$ 173,350	$ 145,532

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS — (continued)

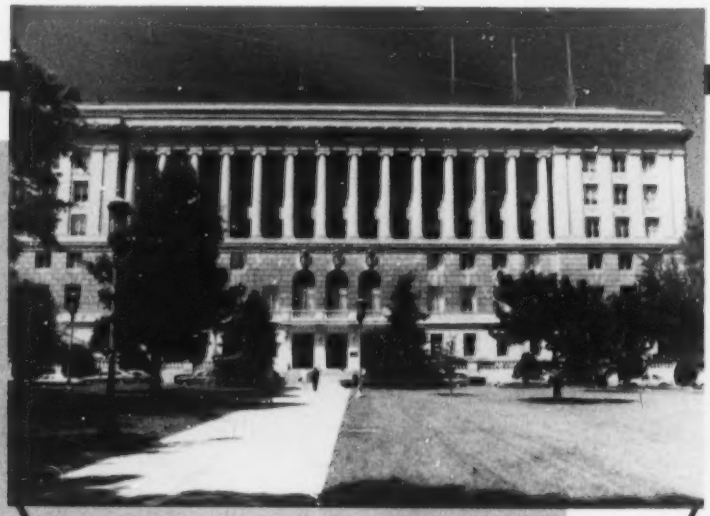
For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

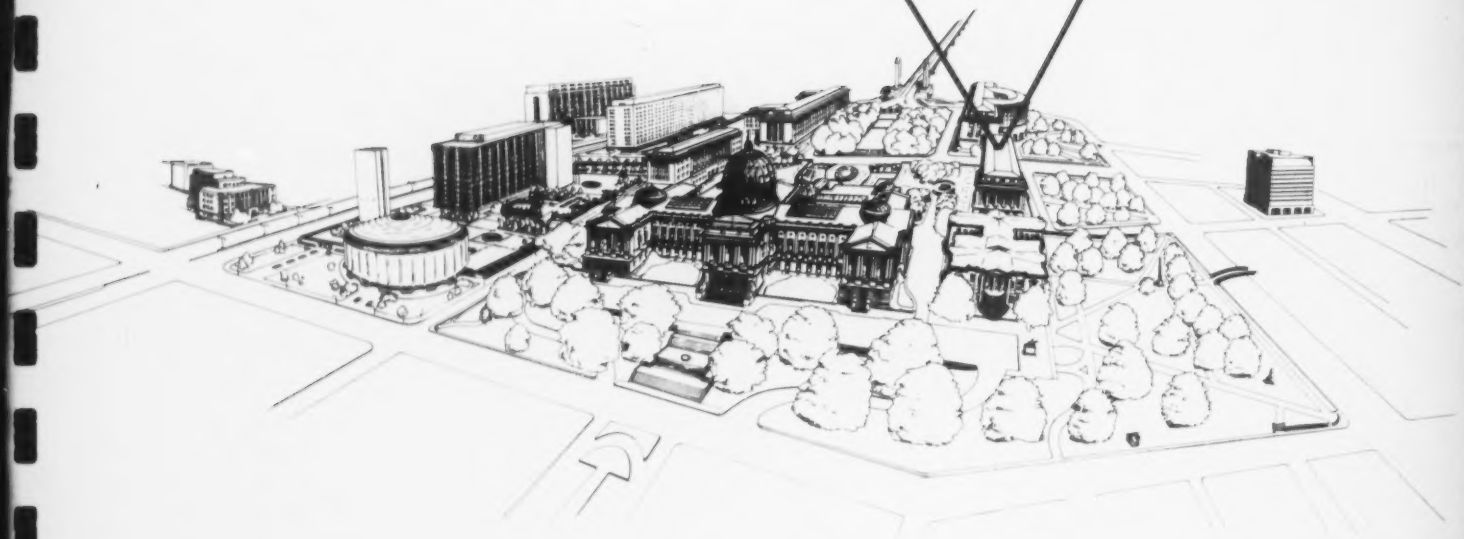
(Expressed in Thousands)

	Balance July 1, 1988	Additions	Deductions	Balance June 30, 1989
OTHER FUNDS				
ASSETS				
Cash	$ 3,972	$ 67,709	$ 68,010	$ 3,671
Temporary investments	17,783	34,593	32,330	20,046
Long-term investments	449	2,378	. . . .	2,827
Receivables, net:				
Taxes	3,600	3,754	3,600	3,754
Accounts	337	709	337	709
Accrued interest	94	111	94	111
Other assets	1,552	853	409	1,996
TOTAL ASSETS	$ 27,787	$ 110,107	$ 104,780	$ 33,114
LIABILITIES				
Accounts payable and accrued liabilities	$ 1,587	$ 4,731	$ 1,587	$ 4,731
Due to other funds	108	310	219	199
Due to other governments	9,527	31,222	31,058	9,691
Other liabilities	16,565	2,295	367	18,493
TOTAL LIABILITIES	$ 27,787	$ 38,558	$ 33,231	$ 33,114
TOTAL — ALL FUNDS				
ASSETS				
Cash	$ 4,014	$ 618,033	$ 617,699	$ 4,348
Temporary investments	378,272	987,891	966,968	399,195
Long-term investments	4,438	12,663	284	16,817
Receivables, net:				
Taxes	3,600	3,754	3,600	3,754
Accounts	1,204	5,168	3,944	2,428
Accrued interest	2,118	18,840	17,968	2,990
Due from other funds	291	396	291	396
Due from other governments	13,778	6,007	13,778	6,007
Other assets	1,597	1,332	457	2,472
TOTAL ASSETS	$ 409,312	$1,654,084	$1,624,989	$ 438,407
LIABILITIES				
Accounts payable and accrued liabilities	$ 3,521	$ 11,412	$ 6,901	$ 8,032
Due to other funds	374	788	552	610
Due to other governments	182,487	213,823	207,899	188,411
Other liabilities	222,930	189,474	171,050	241,354
TOTAL LIABILITIES	$ 409,312	$ 415,497	$ 386,402	$ 438,407

General Fixed Assets Account Group



South
Office
Building



South Office Building

In 1916, architect Arnold W. Brunner and landscape architect Warren H. Manning were commissioned to prepare comprehensive plans for the further development of the Capitol Complex. The South Office Building, completed in 1921, was the first step toward the fulfillment of the Brunner Plan. This seven-story, simply designed building has colorful murals by Edward Trumbull on its main floor.

GENERAL FIXED ASSETS ACCOUNT GROUP DESCRIPTION

The General Fixed Assets Account Group is maintained to account for fixed assets acquired or constructed for general government purposes. These include all fixed assets except those accounted for in Proprietary and Pension Trust Funds and College and University Funds.

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY SOURCE

For the Fiscal Year Ended June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 1988	Additions	Retirements	Balance June 30, 1989
GENERAL FIXED ASSETS:				
Land	$ 201,107	$ 4,696	$ 92	$ 205,711
Buildings	1,923,507	88,702	2,859	2,009,350
Improvements other than buildings	138,236	8,757	262	146,731
Furniture, machinery and equipment	380,973	59,588	9,771	430,790
	2,643,823	161,743	12,984	2,792,582
Construction in progress	124,642	10,710	95,071	40,281
Total General Fixed Assets	$2,768,465	$ 172,453	$ 108,055	$2,832,863
INVESTMENT IN GENERAL FIXED ASSETS:				
Acquired on or before June 30, 1986	$2,168,749	$ 129	$ 11,336	$2,157,542
Acquired after June 30, 1986 from:				
General fund revenues	66,333	23,455	438	89,350
General obligation bonds	327,932	90,261	725	417,468
Federal grants	10,525	1,710	161	12,074
Special revenue funds	62,901	45,878	324	108,455
Donations	7,383	310	. . . .	7,693
Total Sources	2,643,823	161,743	12,984	2,792,582
Construction in progress	124,642	10,710	95,071	40,281
Total Investment in General Fixed Assets	$2,768,465	$ 172,453	$ 108,055	$2,832,863

Funding sources for General Fixed Assets acquired on or before June 30, 1986 are not available.

SCHEDULE OF GENERAL FIXED ASSETS BY FUNCTION

June 30, 1989

COMMONWEALTH OF PENNSYLVANIA

Expressed in Thousands

	Land	Buildings	Improvements Other Than Buildings	Furniture, Machinery And Equipment	Total
FUNCTION					
General government	$ 5,749	$ 377,847	$ 23,095	$ 42,953	$ 449,644
Protection of persons and property	6,037	367,991	42,369	36,561	452,958
Public health and welfare	3,166	605,331	17,757	76,414	702,668
Public education	17,453	549,819	46,030	6,052	619,354
Conservation of natural resources	170,429	52,820	10,837	22,560	256,646
Economic development and assistance	. . . .	. . . .	. . . .	144	144
Transportation	2,877	55,542	6,643	246,106	311,168
TOTALS ALLOCATED TO FUNCTIONS	$ 205,711	$2,009,350	$ 146,731	$ 430,790	2,792,582
Construction in progress					40,281
TOTAL GENERAL FIXED ASSETS					$2,832,863

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION

For the Fiscal Year Ended June 30, 1989

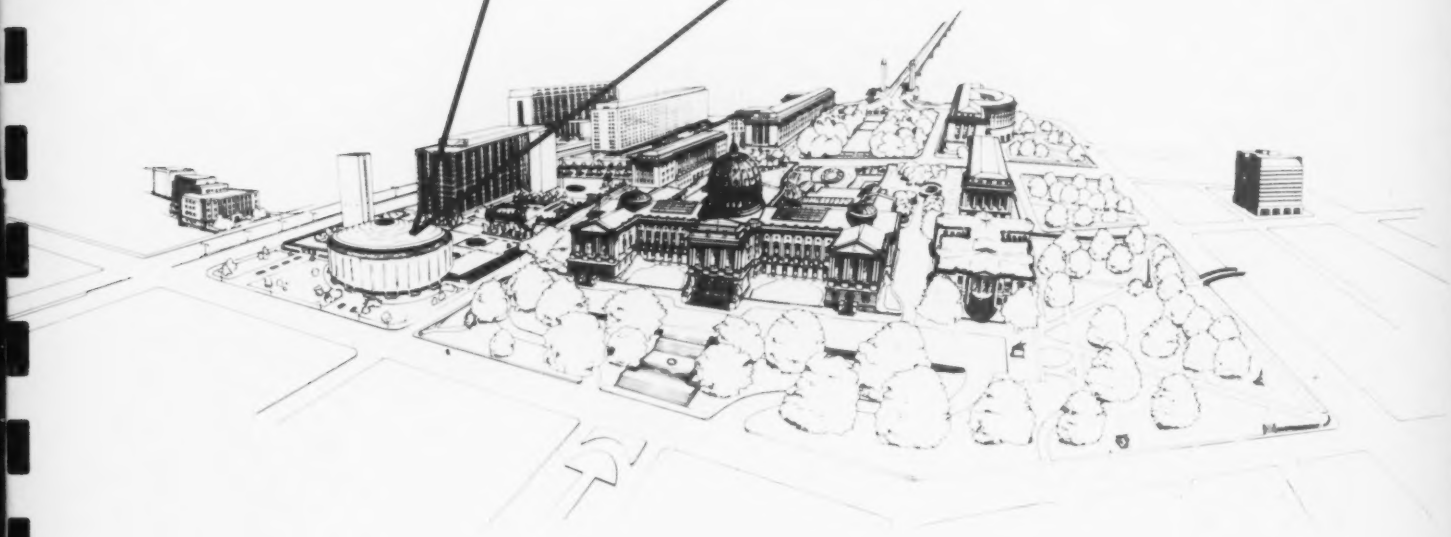
COMMONWEALTH OF PENNSYLVANIA

Expressed in Thousands

	Balance July 1, 1988	Additions	Retirements	Transfers In	Transfers Out	Balance June 30, 1989
General government	$ 428,786	$ 22,164	$ 6,313	$ 5,542	$ 535	$ 449,644
Protection of persons and property	384,536	69,904	1,465	263	280	452,958
Public health and welfare	696,538	8,443	1,870	. . . .	443	702,668
Public education	607,227	13,062	935	. . . .	. . . .	619,354
Conservation of natural resources	248,732	8,276	386	24	. . . .	256,646
Economic development and assistance	144	. . . .	. . . .	. . . .	. . . .	144
Transportation	277,860	39,894	2,015	. . . .	4,571	311,168
	2,643,823	161,743	12,984	5,829	5,829	2,792,582
Construction in progress	124,642	10,710	95,071	. . . .	. . . .	40,281
TOTALS	$2,768,465	$ 172,453	$ 108,055	$ 5,829	$ 5,829	$2,832,863

College and University Funds

The State Museum of Pennsylvania



The State Museum of Pennsylvania

(formerly the William Penn Memorial Museum)

Replacing the old State Museum in 1964, this six-story, modern circular museum building houses the Commonwealth's most treasured artifacts and historical documents. This building was designed by Lawrie and Green, the museum contains the William Penn Memorial Hall, a hall of natural history, a fine arts gallery, a planetarium, major historical exhibits, a small auditorium and classrooms for educational museum programs.

COLLEGE AND UNIVERSITY FUNDS
DESCRIPTION

The College and University Funds, which comprise the State System of Higher Education, are used to account for the transactions relating to the Office of the Chancellor and the state-owned universities of the Commonwealth.

The state-owned universities of the Commonwealth are as follows:

Bloomsburg University
California University
Cheyney University
Clarion University
East Stroudsburg University
Edinboro University
Indiana University of Pennsylvania
Kutztown University
Lock Haven University
Mansfield University
Millersville University
Shippensburg University
Slippery Rock University
West Chester University

COMBINING BALANCE SHEET
College and University Funds

June 30, 1989

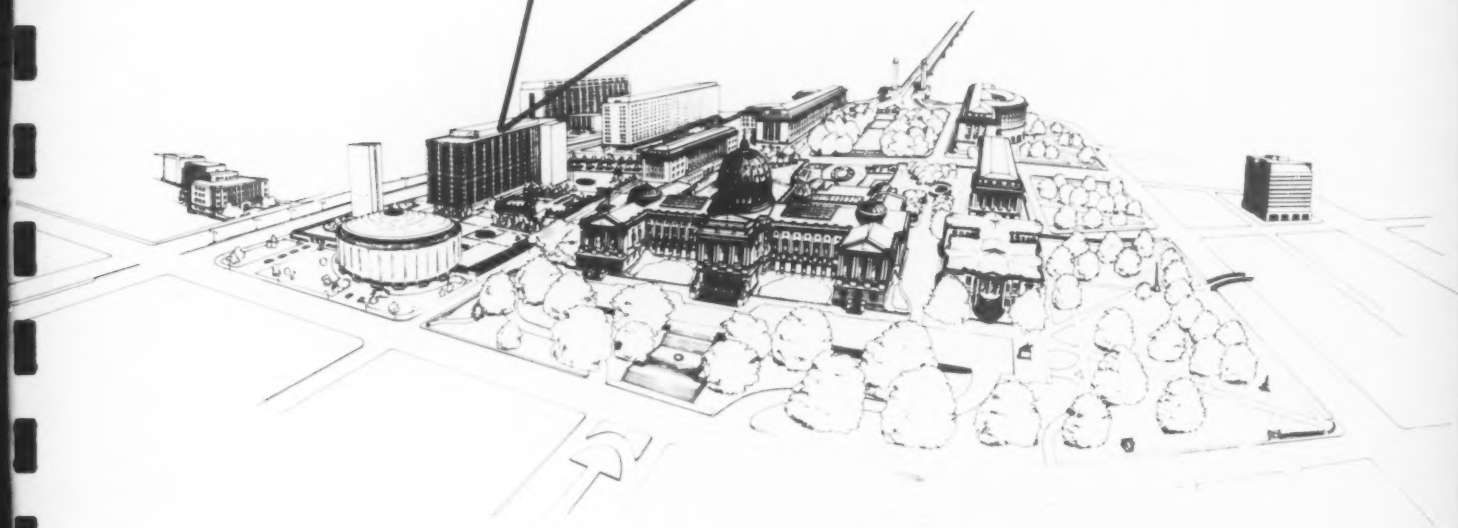
COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Current Funds				Plant Funds					
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant	Agency	Totals
ASSETS										
Cash	$ 5,909	$	$	$	$	$	$	$	$	$ 5,909
Temporary investments	125,922				14,934					140,856
Long-term investments	115	236	554	2,770			5,025			8,700
Receivables, net:										
Accounts	5,146	4,064							148	9,358
Loans			19,391							19,391
Other	5,172				50					5,222
Due from other funds	37	7,133	994	1,278	18,751	26,038	1,515		1,481	57,227
Inventory	3,999									3,999
Fixed assets					8,585			328,054		336,639
Other assets	16,959				160		184			17,303
TOTAL ASSETS	$ 163,259	$ 11,433	$ 20,939	$ 4,048	$ 42,480	$ 26,038	$ 6,724	$ 328,054	$ 1,629	$ 604,604
LIABILITIES AND FUND EQUITY										
Liabilities:										
Accounts payable and accrued liabilities	$ 52,798	$ 1,849	$	$ 102	$ 2,905	$ 1,331	$ 678	$ 196	$ 19	$ 59,878
Due to other funds	61,814							5,734		67,548
Deferred revenue	20,204									20,204
Notes payable								4,612		4,612
Other liabilities	2,362		2					5,445	1,610	9,419
Capital lease obligations					17,666		5,210	29,704		52,580
TOTAL LIABILITIES	137,178	1,849	2	102	20,571	1,331	5,888	45,691	1,629	214,241
Fund Equity:										
Investment in fixed assets								282,363		282,363
Fund Balance:										
Reserved for:										
Encumbrances	9,784	585								10,369
Loans receivable			20,937							20,937
Endowment and similar funds	5,643			3,946						9,589
Restricted fund balance		8,999			3,623	10,497	22			23,141
Other	10,654									10,654
Unreserved:										
Undesignated					18,286	14,210	814			33,310
TOTAL FUND EQUITY	26,081	9,584	20,937	3,946	21,909	24,707	836	282,363		390,363
TOTAL LIABILITIES AND FUND EQUITY	$ 163,259	$ 11,433	$ 20,939	$ 4,048	$ 42,480	$ 26,038	$ 6,724	$ 328,054	$ 1,629	$ 604,604

Statistical Section

Transportation
and Safety Building



Transportation and Safety Building

This twelve-story pre-cast concrete edifice was dedicated on July 25, 1967. The Bureau of Motor Vehicles is located below plaza level.

REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES[1]

TABLE 1

For the Last Ten Fiscal Years Ended June 30[2]

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
REVENUES BY SOURCE										
Taxes	$ 6,780,404	$ 7,084,529	$ 7,584,306	$ 7,854,895	$ 9,122,306	$ 9,551,576	$ 9,970,214	$10,652,020	$10,888,272	$11,758,767
Licenses and fees	391,929	436,152	507,829	477,592	504,439	524,927	540,234	564,781	588,526	629,370
Intergovernmental	2,121,994	2,370,695	2,739,962	2,895,041	3,071,788	3,490,865	3,745,396	3,751,334	3,873,583	4,248,709
Charges for sales and services	493,535	535,380	486,248	597,431	343,062	480,759	530,519	486,243	536,175	528,691
Investment income	146,873	139,928	139,723	99,689	134,141	203,872	195,202	194,900	193,945	226,190
Lottery receipts, net of prizes through 1986[3]	173,330	188,509	240,727	394,697	540,017	593,115	557,481	1,341,631	1,472,311	1,575,312
Other[4]	229,729	299,741	124,218	135,678	129,727	122,191	231,346	185,341	153,580	281,251
TOTAL REVENUES	$10,337,794	$11,054,934	$11,823,013	$12,455,023	$13,845,480	$14,967,305	$15,770,392	$17,176,250	$17,706,392	$19,248,290
EXPENDITURES BY FUNCTION										
General government[3]	$ 963,915	$ 858,193	$ 692,970	$ 798,991	$ 906,842	$ 829,609	$ 803,909	$ 1,516,385	$ 1,741,126	$ 1,873,466
Protection of persons and property	659,468	680,383	499,306	627,369	693,043	778,897	911,957	948,562	1,021,668	1,092,335
Public health and welfare	3,953,183	4,248,058	4,954,202	5,228,634	5,295,688	5,686,873	6,231,705	6,360,862	6,704,892	7,175,239
Public education	3,067,323	3,357,128	3,456,007	3,632,541	3,720,818	4,063,157	4,122,935	4,395,740	4,761,170	5,166,302
Conservation of natural resources	139,899	143,215	164,196	179,201	179,604	257,112	299,010	305,599	334,833	368,906
Economic development and assistance	70,565	98,099	94,021	113,304	164,791	158,107	187,614	206,355	346,037	349,767
Transportation	908,364	1,263,048	1,427,393	1,501,886	1,474,704	1,843,703	2,053,335	2,114,625	2,171,964	2,304,822
Capital outlay	78,595	104,102	173,074	175,401	157,946	345,881	463,671	476,118	274,336	229,753
Debt Service:										
Principal retirement	115,505	123,745	317,397	490,096	386,310	759,471	1,186,619	659,548	482,277	440,152
Interest and fiscal charges	245,862	244,209	350,224	178,987	346,924	358,358	407,066	405,701	408,968	448,482
TOTAL EXPENDITURES	$10,202,679	$11,120,180	$12,128,790	$12,926,410	$13,326,670	$15,081,168	$16,667,821	$17,389,495	$18,247,271	$19,449,224

(1) Includes General, Special Revenue, Debt Service and Capital Projects Funds

(2)(a) 1980 - 1981 data is on non-GAAP budgetary basis

(b) 1982 - 1989 data is on GAAP basis

(3) Prior to 1987, revenue and expenditures for lottery receipts and general government, respectively, were reported net of retailer commissions and retailer-paid prizes.

(4) Prior to 1989, lease rental principal and interest payments, included as other revenue, were classified as an "Other Financing Source."

NET BONDED DEBT PER CAPITA

TABLE 2

For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

For The Fiscal Year Ended June 30	Net Bonded Debt	Population	Debt Per Capita
1979	$4,721,474	11,874	$398
1980	4,623,848	11,865	390
1981	4,578,163	11,878	385
1982	4,450,236	11,879	375
1983	4,487,011	11,889	377
1984	4,483,573	11,887	377
1985	4,535,008	11,864	382
1986	4,529,393	11,889	381
1987	4,558,839	11,943	382
1988	4,698,645	12,001	392

SOURCE: Population Information — U.S. Department of Commerce, Bureau of the Census

RATIO OF ANNUAL DEBT SERVICE REQUIREMENTS FOR GENERAL BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES

TABLE 3

For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

For The Fiscal Year Ended June 30	Debt Service Requirements Funded by General Fund	Budgetary Basis General Fund Expenditures (1)	%
1980	$ 264,145	$ 8,005,039	3.30
1981	275,056	8,595,628	3.20
1982	303,713	9,361,800	3.24
1983	301,727	10,038,371	3.00
1984	341,413	10,436,777	3.27
1985	359,200	11,223,622	3.20
1986	350,195	11,781,951	2.97
1987	371,702	12,395,674	3.00
1988	393,907	13,180,073	2.98
1989	381,617	13,949,111	2.74

(1) Excludes encumbrances included as "Total Expenditures" in the Statement of Revenues, Expenditures and Changes in Unreserved/Undesignated Fund Balances—Budget and Actual (Budgetary Basis).

COMPUTATION OF LEGAL DEBT MARGIN

TABLE 4

August 31, 1989

COMMONWEALTH OF PENNSYLVANIA

Average annual tax revenues deposited in the previous five fiscal years	$12,670,308,800
Constitutional factor	x 1.75
Constitutional debt limit for debt incurred without the approval of the electors	22,173,040,400
Less outstanding net debt (non electorate approved)	3,988,515,345
Legal debt margin	$18,184,525,055

The formula for the legal debt limit is contained in Article VIII, Section 7(a) of the Pennsylvania Constitution, which provides:

No debt shall be incurred by or on behalf of the Commonwealth except by law and in accordance with the provisions of this section.

(1) Debt may be incurred without limit to suppress insurrection, rehabilitate areas affected by man-made or natural disaster, or to implement unissued authority approved by the electors prior to the adoption of this article.

(2) The Governor, State Treasurer and Auditor General, acting jointly, may (i) issue tax anticipation notes having a maturity within the fiscal year of issue and payable exclusively from revenues received in the same fiscal year, and (ii) incur debt for the purpose of refunding other debt, if such refunding debt matures within the term of the original debt.

(3) Debt may be incurred without limit for purposes specifically itemized in the law authorizing such debt, if the question whether the debt shall be incurred has been submitted to the electors and approved by a majority of those voting on the question.

(4) Debt may be incurred without the approval of the electors for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all net debt outstanding to exceed one and three-quarters times the average of the annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General. For the purposes of this subsection, debt outstanding shall not include debt incurred under clauses (1) and (2)(i), or debt incurred under clause (2)(ii) if the original debt would not be so considered, or debt incurred under subsection (3) unless the General Assembly shall so provide in the law authorizing such debt.

The figures above are abstracted from a certification of the Auditor General dated August 31, 1989 contained in the Official Statement for $177,000,000 Commonwealth of Pennsylvania General Obligation Bonds issued November 1, 1989.

SCHEDULE OF REVENUE BOND COVERAGE

TABLE 5

For the Last Ten Fiscal Years

COMMONWEALTH OF PENNSYLVANIA

Pennsylvania Turnpike Commission

(Expressed in Thousands)

For the Fiscal Year Ended May 31	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1980	$115,427	$ 54,469	$ 60,958	$22,948	$ 5,450	$28,398	2.15
1981	121,622	60,898	60,724	5,978	4,627	10,605	5.73
1982	132,046	67,625	64,421	9,680	4,381	14,061	4.58
1983	131,083	72,985	58,098	7,349	4,120	11,469	5.07
1984	144,815	78,287	66,528	5,352	3,812	9,164	7.26
1985	154,542	82,230	72,312	6,451	3,604	10,055	7.19
1986	162,539	93,648	68,891	4,662	3,381	8,043	8.57
1987	180,692	101,692	79,000	2,299	46,500	48,799	1.62
1988	221,807	100,875	120,932	3,225	56,514	59,739	2.02
1989	245,192	105,619	139,573	4,070	58,789	62,859	2.22

Pennsylvania Industrial Development Authority

(Expressed in Thousands)

For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1980	$13,981	$ 515	$13,466	$5,500	$ 5,464	$10,964	1.23
1981	15,872	884	14,988	5,755	5,119	10,874	1.38
1982	16,064	1,009	15,055	5,800	4,756	10,556	1.43
1983	19,058	1,211	17,847	5,655	8,933	14,588	1.22
1984	21,775	1,662	20,113	5,630	9,537	15,167	1.33
1985	24,658	1,783	22,875	6,735	13,167	19,902	1.15
1986	23,320	1,897	21,423	7,910	13,359	21,269	1.01
1987	23,370	1,574	21,796	8,620	12,433	21,053	1.04
1988	25,479	1,765	23,714	8,525	11,257	19,782	1.20
1989	29,477	2,223	27,254	8,505	10,584	19,089	1.43

Pennsylvania Housing Finance Agency

(Expressed in Thousands)

For the Fiscal Year Ended June 30	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest[a]	Total	
1980	$ 57,839	$10,998	$ 46,841	$ 1,237	$ 31,341	$ 32,578	1.44
1981	68,427	15,223	53,204	1,951	37,785	39,736	1.34
1982	77,773	18,068	59,705	3,522	42,347	45,869	1.30
1983	109,023	18,793	90,230	3,440	77,010	80,450	1.12
1984	119,389	12,160	107,229	8,293	94,305	102,598	1.05
1985	146,205	10,686	135,519	8,180	119,420	127,600	1.06
1986	168,441	8,438	160,003	13,386	142,332	155,718	1.03
1987	159,034	8,088	150,946	14,987	136,625	151,612	1.00
1988	162,172	8,593	153,579	15,960	138,508	154,468	.99
1989	182,535	8,402	174,133	20,226	148,327	168,553	1.03

[a] Excludes interest on notes payable.

ANNUAL ESTIMATES OF THE RESIDENT POPULATION — PENNSYLVANIA COMPARED TO THE UNITED STATES

TABLE 6

For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

	(Expressed in Thousands)		
Calendar Year	United States	Pennsylvania	%
1979	224,567	11,874	5.3
1980	226,545	11,865	5.2
1981	229,518	11,878	5.2
1982	231,786	11,879	5.1
1983	234,023	11,889	5.1
1984	236,495	11,887	5.0
1985	238,740	11,864	5.0
1986	241,077	11,889	4.9
1987	243,419	11,943	4.9
1988	245,807	12,001	4.9

SOURCE: U.S. Department of Commerce, Bureau of the Census

STATE BANKING INSTITUTIONS
DEMAND DEPOSITS AND TIME AND SAVINGS DEPOSITS

TABLE 7

For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

Calendar Year	Demand Deposits	Time and Savings Deposits
1979	$6,387,518	$27,374,973
1980	7,734,878	32,192,294
1981	6,673,295	34,871,097
1982	6,489,537	38,144,921
1983	6,606,723	42,982,476
1984	5,263,282	39,356,857
1985	5,728,297	42,322,007
1986	6,632,325	45,351,526
1987	6,443,804	47,556,165
1988	6,558,607	50,347,975

SOURCE: Pennsylvania Department of Banking

RESIDENT EMPLOYMENT, UNEMPLOYMENT AND UNEMPLOYMENT RATE — PENNSYLVANIA COMPARED TO THE UNITED STATES

TABLE 8

For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands except percent)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
PENNSYLVANIA										
Civilian labor force	5,360	5,435	5,484	5,489	5,505	5,479	5,527	5,637	5,655	5,780
Employment	4,990	5,010	5,026	4,889	4,855	4,981	5,084	5,251	5,335	5,486
Unemployment	370	425	458	600	650	498	443	386	320	294
Rate %	6.9	7.8	8.4	10.9	11.8	9.1	8.0	6.8	5.7	5.1
UNITED STATES										
Civilian labor force	104,962	106,940	108,670	110,204	111,550	113,544	115,461	117,835	119,865	121,669
Employment	98,824	99,303	100,397	99,526	100,834	105,005	107,150	109,598	112,440	114,968
Unemployment	6,138	7,637	8,273	10,678	10,716	8,539	8,311	8,237	7,425	5,701
Rate %	5.8	7.1	7.6	9.7	9.6	7.5	7.2	7.0	6.2	5.5

SOURCE: Pennsylvania Department of Labor and Industry, Bureau of Employment Security

TOTAL PERSONAL INCOME AND PER CAPITA PERSONAL INCOME—PENNSYLVANIA COMPARED TO THE UNITED STATES

TABLE 9

For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA

Calendar Year	TOTAL PERSONAL INCOME (Millions of Dollars)			PER CAPITA PERSONAL INCOME (Dollars)		
	United States	Pennsylvania	%	United States	Pennsylvania	%
1979	2,028,510	106,803	5.3	9,033	8,995	99.6
1980	2,254,076	117,445	5.2	9,919	9,893	99.7
1981	2,514,231	129,113	5.1	10,949	10,869	99.3
1982	2,663,432	135,945	5.1	11,481	11,440	99.7
1983	2,834,385	142,183	5.0	12,098	11,952	98.8
1984	3,101,163	151,386	4.9	13,114	12,729	97.1
1985	3,317,545	160,820	4.9	13,896	13,553	97.5
1986	3,522,203	169,617	4.8	14,608	14,257	97.6
1987	3,768,696	181,533	4.8	15,482	15,200	98.2
1988	4,042,110	194,459	4.8	16,444	16,168	98.3

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

THIRTY LARGEST NONGOVERNMENTAL EMPLOYERS

TABLE 10

For the Calendar Year 1988

COMMONWEALTH OF PENNSYLVANIA

EMPLOYER	RANK
Sears Roebuck and Company	1
The Bell Telephone Co. of Pennsylvania	2
Westinghouse Electric Corporation	3
General Electric Company	4
Trustees of the University of Pennsylvania	5
K Mart Corporation	6
Acme Markets, Inc.	7
J. C. Penney Co., Inc.	8
University of Pittsburgh	9
The Prudential Insurance Co. of America	10
Bethlehem Steel Corporation	11
United Parcel Service, Inc.	12
Weis Markets Incorporated	13
Philadelphia Electric Co.	14
Strawbridge & Clothier	15
USX Corporation	16
UNISYS Corporation	17
Mellon Bank, N.A.	18
A T & T Technologies, Inc.	19
Temple University	20
AMP Incorporated	21
Pennsylvania Power & Light Co.	22
SCOA Industries, Inc.	23
U.S. Air, Incorporated	24
Hershey Foods Corporation	25
Giant Eagle, Inc.	26
The Boeing Co.	27
Macy's Northeast Inc.	28
PPG Industries, Inc.	29
Giant Food Stores, Inc.	30

SOURCE: Pennsylvania Department of Labor and Industry, Office of Employment Security

LIST OF MAJOR CORPORATIONS THAT MAINTAIN THEIR CORPORATE HEADQUARTERS IN THE COMMONWEALTH

TABLE 11

COMMONWEALTH OF PENNSYLVANIA

AMP Incorporated
Air Products and Chemicals, Inc.
Alco Standard Corporation
Allegheny International, Inc.
Allegheny Ludlum Corporation
Aluminum Company of America
Aristech Chemical
Armstrong World Industries, Inc.
Atlantic Financial Federation
Bayer USA Inc.
Bell Atlantic Corporation
Bethlehem Steel Corporation
Carpenter Technology Corporation
CertainTeed Corporation
Cigna Corporation
ComCast Corporation
Consolidated Natural Gas Co.
Consolidated Rail Corporation
CoreStates Financial Corporation
Crown Cork and Seal Company, Inc.
Cyclops Industries, Inc.
Dauphin Deposit Corporation
Duquesne Light Company
Equimark Corporation
First Pennsylvania Corporation
H.H. Robertson Company
H.J. Heinz Company
Harsco Corporation
Hershey Foods Corporation
Independence Bancorp Inc.
Integra Financial Corporation
Lukens Inc.
Mack Trucks, Inc.
Mellon Bank Corp.
Meridian Bancorp, Inc.
Meritor Financial Group
National Intergroup, Inc.
National Steel Corporation
P.H. Glatfelter Company
PPG Industries, Inc.
PNC Financial Corporation
Pennsylvania Power & Light Co.
Pennwalt Corporation
Philadelphia Electric Co.
Quaker State Corporation
Rite Aid Corporation
Rohm and Haas Company
Rorer Group Inc.
Scott Paper Company
SmithKline Beckman Corp.
Sun Company, Inc.
USX Corporation
Union Pacific Corporation
UNISYS Corporation
VF Corporation
Weis Markets, Incorporated
Westinghouse Electric Corporation
Westmoreland Coal Co.
York International Corp.

SOURCE: The *Fortune 500* and the *Forbes 500* listings, published April 1989

MISCELLANEOUS STATISTICS

TABLE 12

JUNE 30, 1989

COMMONWEALTH OF PENNSYLVANIA

Date of Ratification of U.S. Constitution	December 12, 1787
Form of Government	Legislative-Executive-Judicial
Miles of State Highway	41,344
Land Area - in square miles	44,888
State Police Protection:	
Number of Stations	106
Number of State Police	4,064
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in state	236
Number of educators	21,184
Number of students	542,364
Recreation:	
Number of State Parks	114
Area of State Parks	276,322 Acres
Area of State Forests	2,072,268 Acres

SOURCE:
Pennsylvania Department of Transportation, Bureau of Strategic Planning
Pennsylvania State Police, Bureau of Research and Development
Pennsylvania Department of Education, Division of Data Services
Pennsylvania Department of Environmental Resources, Bureau of Forestry